U.S. Treasury Dept.

Press Releases.

Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

July 2, 1973

NOTE TO CORRESPONDENTS

Attached is a resumé of remarks by Under Secretary for Monetary Affairs Paul A. Volcker on Thursday, June 7, at a session on "Issues of International Monetary Reform" at the 1973 International Monetary Conference of the American Bankers Association, Paris, France.

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2

RESUMÉ OF REMARKS BY
TREASURY UNDER SECRETARY FOR MONETARY AFFAIRS
PAUL A. VOLCKER
ON THURSDAY, JUNE 7, 1973, TO A SESSION OF
THE PARIS INTERNATIONAL MONETARY CONFERENCE ON
"ISSUES OF INTERNATIONAL MONETARY REFORM"

(1) Monetary reform is as much a political as it is an economic problem, and this is a point of which we must be conscious in developing reform plans. We must deal with the issues in a political perspective.

(2) We must keep in mind that one country's actions impinge on other countries. Thus, we need a sense of system, a set of rules or a code of conduct. Without such rules, not only are economic conflicts likely to arise but, more importantly, there will be political squabbling and international tension.

(3) Another political reality that must be taken into account is that countries don't like other people telling them what to do. This point is very neatly crystallized in the phrase "national sovereignty." Thus, one of the main problems of monetary reform is to resolve the conflict between the interests of the community as a whole and the interests of individual member countries.

(4) Our objective in reform should be to work towards international financial equilibrium, which we prefer to disequilibrium. Unfortunately, the temptation is to say that we prefer surpluses to equilibrium, but this approach is not workable. Moreover, we need "discipline." Now, this statement may sound "French," but if it does, so be it. We agree.

(5) The question is how to make these principles operational. We have accumulated a certain number of slogans -- stable but adjustable rates, the necessity of controlling the creation of international liquidity, and various views about the degree of stability or flexibility in the system. The problem is how to define these concepts and make them operational and meaningful. In other words, how do we make "discipline" operational?

(6) This is the sense that people attach to a convertible system. Why do they want such a system? The reason is that it is a tool to enforce discipline. It enforces discipline on deficit countries, and thus works in one direction. It is a simple concept. The deficit country

loses reserves and therefore has to adjust. It is politically palatable in that it is understandable to the population at large. The loss of reserves is a clear public signal that something needs to be done. And this feature is contained in the U.S. proposals. However, it is not a sufficient mechanism in that it is one-sided. So the question is how to enforce "discipline" on countries moving in the opposite direction -- that is, surplus countries?

(7) Now, the logic of this situation is to apply the reserve criterion symmetrically. In other words, when a surplus country registers reserve increases, it should also be required to adjust. This would mean an even-handed application of "discipline." However, we run into reluctance on the part of many people to accept this logic. "Discipline" is fine for others, but not for them. And this is a natural reaction. So, if we can understand the reluctance of surplus countries to accept the logic of the "discipline" that would be involved in even-handed reliance on reserve indicators, we should also be able to understand the reaction of deficit countries if they get the feeling that the system is not symmetrical and equitable. Our objective is to try to deal with both problems.

(8) There are distinct political advantages in a reserve indicator mechanism that operates in both directions. It is fair and equitable. It operates alike on countries of different size and in different positions. It is a code of conduct that can be readily understood by politicians and informed public opinion in the countries required to take action.

(9) Now, a classic convertibility system requires a deficit country to adjust, but does not tell the country specifically what to do. The country must do something, but it is left with discretion as to the type of action it takes. The U.S. proposals also envisage leaving the widest possible discretion to countries that are required to adjust. While some actions would be ruled out, countries would be left more or less to choose their own medicine. This is a political necessity for a system whose members are national, sovereign governments. Thus, the principal rule would be to maintain equilibrium, but with maximum freedom of choice for the country concerned in the instruments used to do so.

3

(10) The problem of adjustment arises, whether we have a fixed or a floating rate system. In a system of established rates with convertibility, there is a need for reserves. The type of adjustment process has a direct bearing on the size of that need. How quickly will countries be required to adjust? How much scope will be allowed for imbalances? We must be consistent in our judgment on this point and on the amount of reserves created. If we leave a lot of scope for countries to adjust, but insist on a tight reserve situation, then there will not be enough reserves to finance the amount of play in the adjustment process. The less reserves we are willing to provide, the stronger the adjustment process must be. If we do not want to be too harsh on surplus countries, if we are going to allow surplus countries to pile up reserves, then there must be sufficient reserves to enable this process to go on. The need for consistency between the reserve system and the adjustment system is a point that is sometimes overlooked. The advantage of the U.S. reserve indicator proposal is that this consistency is automatically obtainable.

(11) The sum of individual reserve needs must be equal to global need. Otherwise, we will be in disequilibrium from the start. We have had a system where the amount of primary reserves available was far less than what people wanted to hold as total reserves. This was the element that gave rise to the widespread holding of national currencies as reserves and related instability.

(12) In a convertible system, the certainty of the settlement mechanism must be matched by equal certainty in the adjustment process. Otherwise, inconsistencies will arise, but this is a requirement which it is hard to satisfy, particularly on the surplus country side of the equation. Merely to say that at a certain point the surplus country would be required to enter into discussions and consultations is vague. Here, we are confronted with the certainty of the settlement mechanism compared to the uncertainty of the adjustment process. In our minds, these two elements must be consistent. If adjustment is to be consultative, then convertibility could be consultative as well, but not automatic.

(13) The proposed U.S. system contains no easy political choices for any country. It is always easy to applaud principles, but the root question is how to apply them. It is natural to squirm when we see the principles applied to

ourselves. Looking at this fundamental point is a good thing. We cannot evade it. We must take a commitment here; otherwise, the reformed system will break down.

* * *

Mr. Volcker answered the following questions from the floor.

Q. In his remarks, Dr. Emminger stressed that evolutionary influences were having an important effect in shaping the future monetary system. Why does Mr. Volcker think that the work of the Committee of the Twenty, in looking for agreed rules, is so important if evolution is to be the determining force?

A. I agree with the point made by Dr. Emminger, and see no inconsistency between his remarks and mine. There are two parallel lines of influence shaping the future monetary system -- the formal negotiations on structure and market evolution. What is important is to bring these two lines into convergence. The market evolution does not provide any sense of system or rules.

Q. Doesn't the existence of large-scale international credit facilities reduce the need for reserves?

A. Yes, but it does not eliminate the need for reserves. Attention to the reserve aspects of the matter is crucial. I sense that countries are now much quicker to change their exchange rates than in the past and show a greater reluctance to go into debt. In the operation of the adjustment process, credit and reserves are not full substitutes for one another.

Q. Why should surplus countries that have followed good policies and managed their affairs well be expected to "help" deficit countries get out of trouble?

A. The question is formulated in a prejudicial way. One might equally ask why surplus countries shouldn't help themselves to have a higher standard of living. The fundamental point is whether we are going to have international payments equilibrium or not. Surpluses somewhere in the system inevitably mean deficits elsewhere. It has often been said that this preoccupation with the problem of the

4

surplus countries represents nothing more than a bias of the United States. On this topic, I would make the following points:

(1) Is there a tendency to prefer surpluses to deficits? The answer is probably yes, but this conflicts with the general equilibrium hypothesis. The problem is of some concern to the United States in that the United States tends to be the residual country in the system. Thus, other people's desire for surpluses tends to force the United States into deficit.

(2) Do we consider it possible that the United States would accept the discipline of the U.S. proposals if it were to become a surplus country? After all, the United States was a surplus country within my lifetime. Thus, in formulating the U.S. proposals, we looked hard at this question. I can categorically affirm that the United States would accept the discipline.

Q. Why does the United States persist in its negative attitude towards the role of gold in the system?

A. Recent developments reinforce us in our view regarding the undesirability of relying on gold as a key instrument in international monetary affairs. A commodity like gold, which is subject to rising industrial demand and heavy speculative influence, is becoming less and less suitable as a reserve instrument.

Q. When you described your views on the adjustment process, you said that countries required to adjust should have maximum freedom to select the means for accomplishing adjustment. Does that mean that you would allow them to impose import quotas, import surcharges and the like?

A. Maximum freedom does not mean complete freedom. What I had in mind was maximum freedom consistent with the general interest. We accept the general presumption against the use of trade measures as an adjustment tool. Thus, they are the last on our list, but we would not want to see an absolute prohibition against their use if they are used in a general, non-discriminatory way.

* * *

Mr. Volcker answered the following questions at the press briefing after the session on international monetary reform on June 7:

Q. What role do you see for the IMF in the new system? Would it be an independent power?

A. That depends on what the phrase "independent power" means. We have a strong sense of the need for rules of behavior. However, we are skeptical about a system that would place a high degree of discretionary authority in the Fund, whatever the word "Fund" is taken to mean -- the Managing Director, the staff, the Executive Directors, etc. In such a system, countries would feel that decisions were being made in a context outside of their sovereignty. Therefore, we should be as explicit as we can be in advance about rules of behavior. This does not mean there would be no consultation. There would be a great deal of consultation, but we would not remand all problems to the "Fund" for discretionary decision.

People say convertibility has merit because it is automatic. It is a crude mechanism, but they would say it works. The U.S. proposals build on this technique. They are symmetrical and fair. The basic rule of the system is to maintain equilibrium. At the same time, we must avoid a degree of detail of external instruction that no country would want to live with. Our proposals try to reconcile discipline with the need to leave maximum freedom for countries to choose their own tools of adjustment.

Q. What is the effect of market developments on the timing of reform?

A. These are two parallel processes. Market evolution teaches us something about the operation of the system, and we should learn from it. However, it does not provide us with agreed rules, and this is important. This is a topic that falls in the negotiating track. In other words, the negotiators should learn from what is going on in the market, and ad hoc decisions taken to deal with market developments should be consistent with long-term objectives. Of course, we do not want to make an agreement merely for agreement's sake. We want to think this problem through and have a system people have conviction about. In the light of recent developments, I am hopeful on the prospects for agreement.

Q. Mr. Laird stated yesterday that measures would be developed regarding a speculation against the dollar. What does he have in mind?

A. I only read the newspaper reports on Mr. Laird's statement, so that it would not be appropriate for me to comment on it. I would merely reiterate that the behavior of the chief currency and country is important for the system. This depends on how that country does at home. Domestic stability is important both for the United States and for other countries. I am confident that we will be able to maintain reasonable domestic stability in the United States.

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6

ATTENTION: FINANCIAL EDITOR July 2, 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 April 5, 1973, and the other series to be dated July 5, 1973, which were invited on June 26, 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 $1,700,000,000, 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 October 4, 1973		:	182-day Treasury bills maturing January 3, 1974	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.028 a/	7.801	:	95.980 b/	7.952%
Low	97.952	8.102	:	95.933	8.045%
Average	97.981	7.987 1/	:	95.950	8.011% 1/

a/ Excepting two tenders totaling $450,000; b/Excepting two tenders totaling $30,000
53% of the amount of 91-day bills bid for at the low price was accepted
72% 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	$ 27,310,000	$ 17,310,000	:	$ 16,565,000	$ 6,565,000
New York	2,813,065,000	2,037,215,000	:	2,942,575,000	1,464,075,000
Philadelphia	43,940,000	43,940,000	:	7,405,000	7,405,000
Cleveland	34,800,000	34,800,000	:	30,170,000	20,120,000
Richmond	14,035,000	14,035,000	:	9,075,000	9,075,000
Atlanta	22,785,000	22,785,000	:	13,125,000	13,125,000
Chicago	196,240,000	142,890,000	:	272,480,000	65,925,000
St. Louis	39,855,000	37,385,000	:	94,130,000	49,930,000
Minneapolis	12,480,000	12,480,000	:	14,180,000	6,180,000
Kansas City	33,870,000	33,780,000	:	30,835,000	20,975,000
Dallas	29,920,000	26,245,000	:	25,800,000	13,300,000
San Francisco	80,010,000	77,190,000	:	88,285,000	23,415,000
TOTALS	$3,348,310,000	$2,500,055,000 c/		$3,544,625,000	$1,700,090,000 d/

c/ Includes $293,885,000 noncompetitive tenders accepted at the average price of 97.981
d/ Includes $172,540,000 noncompetitive tenders accepted at the average price of 95.950
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 8.27% for the 91-day bills, and 8.47% for the 182-day bills.

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7

FOR IMMEDIATE RELEASE July 3, 1973

TREASURY ANNOUNCES COLD ROLLED STAINLESS STEEL SHEET AND STRIP FROM FRANCE IS BEING SOLD AT LESS THAN FAIR VALUE

Assistant Secretary of the Treasury Edward L. Morgan announced that cold rolled stainless steel sheet and strip from France is being, or is likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended. This merchandise is used in the manufacture of wheel covers, food service equipment, household appliances, flatware, and automotive trim. Notice of the determination will be published in the Federal Register of July 5, 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 duties will be assessed on all entries of this stainless steel sheet and strip from France which have not been appraised and on which dumping margins exist.

A notice of "Withholding of Appraisement" was issued on April 4, 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 persons were afforded the opportunity to present oral and written views prior to the final determination in this case.

During the year beginning April 1, 1972, imports of cold rolled stainless steel sheet and strip were valued at approximately $8.5 million.

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Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

FOR IMMEDIATE RELEASE July 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 July 12, 1973, in the amount of $4,302,580,000 as follows:

91-day bills (to maturity date) to be issued July 12, 1973, in the amount of $2,500,000,000, or thereabouts, representing an additional amount of bills dated April 12, 1973, and to mature October 11, 1973 (CUSIP No. 912793 RY4) originally issued in the amount of $1,800,695,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,700,000,000, or thereabouts, to be dated July 12, 1973, and to mature January 10, 1974 (CUSIP No. 912793 ST4).

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

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

FOR RELEASE TUESDAY, JULY 3, 1973

NO GASOLINE RATIONING, OIL POLICY CHAIRMAN SAYS

Amid scattered press reports of proposed gasoline rationing, bringing memories of World War II ration books, William E. Simon, Deputy Secretary of the Treasury and Chairman of the President's Oil Policy Committee, and Duke R. Ligon, Director of the Office of Oil and Gas, Department of the Interior, clarified the options which are being considered to help equalize the current fuel shortage. These do not include rationing at the consumer level.

Mr. Simon said, "There are several options open to us at this time. We can retain a voluntary fuel allocation program. A voluntary program has been in existence since May 10, 1973, and we have received many suggested revisions in this program.

"Another option is a mandatory fuel allocation program, which would force, under penalty, the allocation of crude oil and petroleum products equitably.

"A third option is a combination of the voluntary and mandatory program.

"As yet, no decision has been reached, and these options are being reviewed with John Love, the President's Director of the Energy Policy Office. In any event, we are not considering rationing at the present time, and any reports that the Government has printed rationing stamps or cards is not true."

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10

RELEASE ON RECEIPT July 5, 1973

TREASURY SECRETARY SHULTZ NAMES WILLIAM B. JOHNSON
SAVINGS BONDS CHAIRMAN FOR ILLINOIS

William B. Johnson, Chairman of the Executive Committee, Illinois Central Gulf Railroad, and Chairman and Chief Executive Officer, IC Industries, Inc., is appointed by Secretary of the Treasury George P. Shultz volunteer State Chairman for the Savings Bonds Program in Illinois, effective immediately.

He 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 Illinois.

Johnson, born in Salisbury, Md., attended Washington College, Chestertown, Md., from which he received an AB degree, maxima cum laude, in 1940. In 1943 he received, cum laude, an LLB degree from the University of Pennsylvania Law School, and was awarded the Henry Wolfe Bikle Prize for highest grades in constitutional law.

From 1943 to 1945, he served in the Security Intelligence Corps.

In 1945, Johnson joined the staff of the U. S. Tax Court in Washington. In 1947, he joined Pennsylvania Railroad as assistant solicitor, advancing, in time, to the post of assistant general counsel.

On March 1, 1959, he was elected President and Director of Railroad Express Agency, a post he held until joining IC Industries.

On February 18, 1966, Johnson was elected President and Chief Executive Officer of Illinois Central Railroad and IC Industries, parent company of the railroad. He became Chairman, President, and Chief Executive Officer of IC Industries in December, 1968, and on March 1, 1972, he was named Chairman and Chief Executive Officer of the corporation.

Johnson is active in numerous business, civic, and professional organizations -- among them: Director, Pepsi-Cola

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General Bottlers; Director, Transportation Association of America; Director, Association of American Railroads; member, citizen's board, U. of Chicago; governing member, Shedd Aquarium Society; trustee, Museum of Science and Industry, and the American Bar Association.

He is also a member of several clubs -- Newcomen Society in North America; The Economic Club of New York; Western Railway Club, Chicago Club, Economic Club, and Commercial Club, Chicago.

Johnson is married to the former Mary Barb. They have four children -- Benjamin, 27, Kirk, 26, John, 23, and Kathleen Mary, 21.

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FOR IMMEDIATE RELEASE July 5, 1973

WITHHOLDING OF APPRAISEMENT ON ACRYLONITRILE-BUTADIENE-STYRENE TYPE OF PLASTIC RESIN FROM JAPAN

Assistant Secretary of the Treasury Edward L. Morgan announced today a withholding of appraisement on acrylonitrile-butadiene-styrene type of plastic resin in pellet and powder form from Japan pending a determination as to whether it is being sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended. This resin, commonly referred to as ABS plastic, is used in a number of engineering type applications such as telephone and appliance housings and drain, waste and vent pipe.

The decision will appear in the Federal Register of July 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 calendar year 1972, imports of ABS-plastic resin, in pellet and powder forms, from Japan amounted to roughly $8,400,000.

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Department of the TREASURY
OFFICE OF REVENUE SHARING
WASHINGTON, D.C. 20226

NEWS
Telephone 634-5163

12

FOR INFORMATION, CALL (202) 634-5248

FOR RELEASE THURSDAY, JULY 5, 1973, 6:00 P.M., EST.

More than 38,000 general revenue sharing checks totalling $1.495 billion will be sent to state and local governments throughout the United States tomorrow by the Office of Revenue Sharing, U.S. Department of the Treasury.

In announcing the release of the money, Graham W. Watt, Director of the Office of Revenue Sharing, said, "These checks are for amounts to which states and local governments are entitled for April, May and June, 1973. Payment for the first quarter of the year was made on April 6."

A list of the amounts of general revenue sharing funds being sent to each state follows. One-third of the amount shown goes to the state government and the remainder is divided among local units of government within that state.

The money is allocated according to a formula which relates data on population, need (shown by per capita income figures) and effort to meet need (represented by data on tax effort).

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General revenue sharing was initiated in October, 1972 by Secretary of the Treasury, George P. Shultz, when the State and Local Fiscal Assistance Act (P.L. 92-512) was passed. President Nixon has termed the program a keystone of the New Federalism that returns money and decision-making authority to state and local governments.

In five years, general revenue sharing will return $30.2 billion to states, counties, cities, towns, townships, Indian tribes and Alaskan native villages.

Including today's payment, $8.121 billion has been returned by the Office of Revenue Sharing to eligible units of government throughout the United States.

30.

Attachment

13

OFFICE OF REVENUE SHARING
July 6, 1973

STATE	AMOUNT
Alabama	$ 25,345,081
Alaska	1,933,491
Arizona	15,127,120
Arkansas	16,403,616
California	161,045,104
Colorado	15,695,815
Connecticut	18,654,384
Delaware	4,423,373
District of Columbia	6,736,068
Florida	43,043,492
Georgia	30,932,796
Hawaii	6,603,927
Idaho	6,249,027
Illinois	76,065,856
Indiana	31,813,413
Iowa	21,148,151
Kansas	14,472,776
Kentucky	24,497,169
Louisiana	34,347,362
Maine	8,824,695
Maryland	29,418,650
Massachusetts	17,343,744
Michigan	63,377,834
Minnesota	29,132,912
Mississippi	24,784,772
Missouri	27,751,665
Montana	5,824,209
Nebraska	10,954,492
Nevada	3,301,498
New Hampshire	4,709,634
New Jersey	46,648,547
New Mexico	9,479,163
New York	165,976,090
North Carolina	38,285,893
North Dakota	6,242,187
Ohio	58,939,302
Oklahoma	16,633,920
Oregon	14,612,721
Pennsylvania	77,832,060
Rhode Island	6,732,281
South Carolina	20,357,293
South Dakota	6,745,034
Tennessee	27,868,813
Texas	70,711,659
Utah	8,926,806
Vermont	4,219,765
Virginia	29,298,040
Washington	21,538,939
West Virginia	14,564,254

OFFICE OF REVENUE SHARING
July 6, 1973

STATE	AMOUNT
Wisconsin	$ 37,252,647
Wyoming	2,838,762
Total	$ 1,494,664,102

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July 9 , 1973

MEMORANDUM FOR THE PRESS:

The attached materials were sent today to the Subcommittee on Private Pension Plans of the Senate Finance Committee for inclusion in the record of the recent hearings on pension reform. The materials consist of:

(a) Secretary Shultz's letter to Senator Nelson, dated today, transmitting the material listed below.

(b) A revised General Explanation of S. 1631 including proposed revisions. This document is substantially the same as the General Explanation released on April 17, 1973. S. 1671, the Retirement Benefits Tax Act, is one of two pension reform bills proposed by the Administration. S. 1631 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.

(c) A Technical Explanation and Section by Section Analysis of S. 1631 including proposed revisions.

(d) A list of the specific proposed technical revisions to S. 1631.

Attachments

THE SECRETARY OF THE TREASURY
WASHINGTON

15

JUL 9 1973

Dear Mr. Chairman:

On May 22, 1973, while testifying before your Subcommittee, I indicated that we were preparing technical materials relating to S. 1631, and that we would submit them to you for publication in the record of the recent hearings on pension reform. Accordingly, I am enclosing copies of the following documents:

(a) A set of proposed Technical Revisions to S. 1631.

(b) A Technical Explanation and Section by Section Analysis of S. 1631 as proposed to be revised.

(c) A Revised General Explanation of S. 1631 as proposed to be revised.

Sincerely yours,

George P. Shultz

George P. Shultz

The Honorable
Gaylord Nelson
Chairman, Subcommittee on
Private Pension Plans
Committee on Finance
United States Senate
Washington, D.C. 20510

Enclosures

16

GENERAL EXPLANATION

RETIREMENT BENEFITS TAX ACT
(S. 1631, 93rd Cong., with Proposed Technical Revisions)

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

/7

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 less 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.

18

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 satisfies 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 not less rapidly than 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.

A participant's accrued benefit is defined in the proposed bill. For a profit-sharing plan or a money purchase pension plan, the accrued benefit is defined as the balance in his account. For a defined benefit pension plan, a participant's accrued benefit, as of any applicable date prior to normal retirement age, is defined as a fraction of the annual benefit commencing at normal retirement age which the employee would receive if he continued employment at his current rate of compensation until normal retirement age. The numerator of the faction is the total number of his years of service with the employer; the denominator is the total number of years of service he would have performed as of normal retirement age if he continued to be employed by the employer until normal retirement age. However, the denominator cannot be less than 15 nor more than 40.

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 at least 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 equals 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 on or after January 1, 1975. In the case of collectively bargained plans, however, these rules would not apply to

20

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 determining whether the sum of the employee's age and his years of participation equals or exceeds 50 years or 35 years, whichever is applicable.

4. Minimum Funding Standard (Section 2 of Bill)

A. Present Law.

Under present regulations, in order to prevent full vesting of all accounts, a defined benefit pension plan generally must be funded in a sufficient amount so that the unfunded past service cost does not exceed the unfunded past service cost as of the date of establishment of the plan, plus any additional past service or supplemental costs added by amendment. An employer generally will satisfy this requirement by annual funding of the sum of normal cost and interest on the unfunded liability. There is no requirement that unfunded liability ever be reduced.

Thus, the current requirement provides only minimal assurance that plans will be funded sufficiently to pay pension benefits according to the terms of the plan.

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 annually 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 would make the average employee less dependent for his pension upon his employer continuing in business and continuing to maintain the plan.

The proposed standard is similar in concept to a standard widely used by accountants to compute the minimum pension cost for accounting purposes.

5. 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

21

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.

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 retirement plan by an individual who has attained the age of 70 1/2.

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.

22

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 permanently 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

Service similar to those which are now required of trustees of plans benefiting 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.

6. 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 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 made 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.

7. 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.

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 or trustee 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.

29

C. Effective Date.

These rules would apply to taxable years ending after the date of enactment.

8. Prohibited Transactions. (Section 6 of Bill)

A. Present Law.

Under present law, a trust forming part of a qualified retirement plan is denied exemption from taxation if it engages 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 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 the disqualified trust 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 beginning on the day after the date of enactment.

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 of employees (generally, 70 percent of employees or 80 percent of those eligible if 70 percent are eligible to participate) or (2) such employees as qualify under a classification that does not discriminate in favor of officers, shareholders, supervisors, or highly compensated employees. In making the computation under the percentage requirement, certain short service, part-time and seasonal employees are excluded. In addition, contributions or benefits under a plan may not discriminate in favor of officers, shareholders, supervisors or highly compensated employees.

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 coverage and discrimination requirements 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 and the discrimination requirement unless such agreement provides that the employees are to be included in the plan.

2C

C. Plans Benefiting Self-Employed Individuals. (Section 7(c) of Bill)

Under existing law, there is full and immediate vesting in contributions made or benefits accrued 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 on 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 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(f) 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 (h) 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(i) 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

27

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 pension 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 contributed 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. Defined Benefit Pension Plans Benefiting Self-Employed Individuals. (Section 7 (a), (c), (g) 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. (Sections 3(c) and 7(e) 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.

2 8

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.

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.

RETIREMENT BENEFITS TAX ACT
S. 1631 (93rd Cong.)
WITH PROPOSED TECHNICAL REVISIONS

Technical Explanation
and Section by Section
Analysis

29

Section 1. Short Title, Etc.

(a) Short title.--Section 1 (a) of the bill provides that the bill may be cited as the "Retirement Benefits Tax Act".

(b) Amendment of 1954 Code.--Section 1 (b) of the bill provides that, except as otherwise expressly provided, whenever in the bill 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.

Section 2. Minimum Standards Relating to Funding, Eligibility, and Vesting.

(a) In general.--Section 2 (a) of the bill would amend section 401 (a) of the code (relating to requirements for qualification) by adding a minimum funding standard in paragraph (7), and by adding new paragraphs (11), (12), (13), and (14). Proposed paragraph (11) would impose limits upon the age and service conditions for participation in a qualified plan. Proposed paragraph (12) would require a qualified plan to include provisions according participants nonforfeitable rights under the plan prior to retirement, in accordance with the "rule of 50". Proposed paragraph (13) would provide a limited exception to the application of the rule of 50 under paragraph (12). Proposed paragraph (14) would provide special transitional rules for applying paragraphs (11) and (12).

Minimum funding standard--section 401 (a) (7)

Section 401 (a) of the code does not contain any explicit funding standard, although a funding standard has been developed administratively. The standard is used in determining whether, under section 401 (a) (7), a complete discontinuance of contributions to a qualified pension plan has occurred. (Sec. 1.401-6 (c) of the Income Tax Regulations.) A qualified plan is required to provide that if such a discontinuance occurs, the rights of participants under the plan, to the extent funded, become vested. (Sec.1.401-6 (c) (1) of the Income Tax Regulations.) Under the administrative standard, a suspension of contributions is not a complete discontinuance of contributions if the benefits under the plan are not affected at any time by the suspension and the unfunded past service cost at any time does not exceed the unfunded past service cost as of the date of establishment of the plan, plus any additional past service or supplemental costs added by amendment. An employer will generally satisfy the administrative funding standard, in the case of a defined benefit pension plan, by annual funding of the sum of normal cost and interest on unfunded past service costs.

30

Section 2 (a) (1) of the bill would amend paragraph (7) of section 401 (a) of the code to provide that for purposes of that 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. This minimum funding standard would not apply to a plan maintained by the United States, a State or political subdivision thereof or a corporation which is an instrumentality of the United States, a State or political subdivision thereof.

For the first plan year beginning after December 31, 1973, the minimum funding standard is to be the sum of (i) the normal cost of the plan for such year plus interest for such year on the unfunded liability computed under the funding method used to determine normal costs, and (ii) 5 percent of the unfunded liability for nonforfeitable benefits under the plan (computed as the excess of the present value of the nonforfeitable benefits then accrued under the plan over the then fair market value of the assets). For this purpose, nonforfeitability of benefits is to be determined without regard to such contingencies as withdrawal of employee contributions, service with a competitor, or improper conduct.

For each subsequent plan year, the standard is increased by the total of the amounts determined under (i) and (ii) of the preceding paragraph with respect to the plan for each of the preceding plan years beginning after December 31, 1973, and reduced (but not below zero) by the total of the amounts contributed to or under the plan for each of the preceding plan years beginning after such date. Thus, amounts contributed for a plan year in excess of the standard reduce the standard for subsequent plan years.

The proposed minimum funding standard for any plan year is not to 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. Thus, for example, if the fair market value of the assets held under the plan is greater than the accrued liability under the entry-age normal funding method, no contributions would be required under this provision because the plan is already fully funded.

For purposes of the minimum funding standard, liabilities under the plan and the assets held under the plan are to be determined as of the same date during the plan year and such date is to be used consistently from year to year. The fair market value of the assets held on such date is to be determined on the basis of a reasonable method applied consistently, such as on the basis of their average value during the year. Further, the actuarial

3/

assumptions used in determining liabilities under the plan are required to be reasonable in the aggregate.

As under present law, failure to satisfy the minimum funding standard would not be the only means of effecting a complete discontinuance of contributions.

As amended, paragraph (7) would also provide that the Secretary of the Treasury or his delegate may authorize the use of another minimum funding standard which results in a satisfactory rate of funding.

Eligibility requirements--proposed section 401 (a) (11)

Under section 401 (a) (3) of the code (relating to requirements for qualification), a qualified pension, profit-sharing, or stock bonus plan (or plans treated as a single plan for qualification purposes) must cover either (1) specified percentages of employees (generally, 70 percent of all employees or 80 percent of the eligible employees if 70 percent of all employees are eligible) or (2) such employees as qualify under a classification that does not discriminate in favor of officers, shareholders, supervisors, or highly compensated employees. Under the percentage coverage requirement, employees who have been employed for a minimum period prescribed by the plan (not in excess of 5 years) and certain part-time and seasonal employees may be excluded. These requirements, however, do not directly limit the restrictions on eligibility to participate which may be imposed by such a qualified plan. Under section 401 (a) (4) of the code, a plan may not discriminate in favor of shareholders, officers, supervisory employees, or highly compensated employees. For example, under present law, employees who, when they first otherwise become eligible to participate in a plan, are older than a specified age (generally an age close to normal retirement age) may be excluded if the prohibited discrimination does not result.

Proposed section 401 (a) (11) provides that a trust is not to constitute a qualified trust under section 401 of the code 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 (including, in accordance with regulations prescribed by the Secretary of the Treasury 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 less

32

than the normal retirement age under the plan reduced by 5 years. For this purpose it is contemplated that regulations will provide a definition of "continuous service" which will be broader than the definition of "employment relationship" provided by § 1.421-7 (h) of the Income Tax Regulations. The Secretary of the Treasury or his delegate is, by regulation, to define the term "normal retirement age under the plan" for purposes of proposed section 401 (a) (11).

Accordingly, under subparagraphs (A) and (B) of proposed section 401 (a) (11), a plan would be required to cover an employee who has completed 3 years of service and is at least 30 years old (if he meets all other conditions of participation) if any trust forming part of the plan is to constitute a qualified trust under section 401 of the code. Furthermore, for example, if the normal retirement age under the plan is age 65, the requirements of proposed section 401 (a) (11) (C) would not be satisfied if, under the plan, employees who, when they would first otherwise become eligible to participate in the plan, are excluded because they have attained age 59 (because 59 is less than 65 reduced by 5). However, in such a case, the requirements would be satisfied if the plan required, as a condition of participation, that an employee have not attained age 60 years or an age greater than 60 years when he first becomes otherwise eligible to participate in the plan.

A plan would not be required to cover an employee who is younger than 30 years even if he has completed 3 or more years of service with the employer. However, a plan could, for example, permit coverage of employees younger than age 30 who have completed more than 3 years of service, or employees who have completed less than 3 years of service who are older than age 30. Similarly, a greater service requirement could be imposed with respect to an employee who, as of the time he is first otherwise eligible to participate, is older than normal retirement age reduced by 5 years.

Vesting requirements--proposed section 401 (a) (12)

Section 401 (a) of the code (relating to requirements for qualification) does not explicitly require that a qualified pension, profit-sharing, or stock bonus plan provide that a participant in the plan acquires a nonforfeitable right to his accrued benefit under the plan at any time before he becomes eligible to retire. However, section 401 (d) (2) (A) of the code (relating to additional requirements for qualification of trusts and plans benefiting owner-employees) presently requires that a plan established by an unincorporated business in which an owner-employee participates must provide that each participant's rights to or derived from the contributions under the plan are nonforfeitable at the time the contributions are paid to or under the plan. In addition, under section 401 (a) (4) of the code, the failure of a plan to provide for preretirement vesting is taken into account by the Internal Revenue Service in determining whether the plan satisfies the requirement that it not discriminate in favor of officers, shareholders, supervisory employees, or highly compensated employees. Furthermore, under section 401 (a) (7) of the code, a qualified pension, profit-sharing, or stock bonus plan must provide that, upon its termination or upon a complete discontinuance of contributions under the plan, the rights of each employee in his accrued benefits, to the extent funded, or the amounts credited to his account, are nonforfeitable. Although the computation of benefits accrued by an employee is required for purposes of section 401 (a) (7) of the code and for purposes of other code provisions, the code does not provide rules for the computation of accrued benefits.

Subparagraph (A) of proposed section 401 (a) (12), provides that, except as provided by subparagraphs (B) and (C) of that paragraph (relating, respectively, to forfeitures due to voluntary withdrawal of employee contributions, and forfeitures required to prevent discrimination in favor of shareholders, officers, supervisory employees, or highly compensated employees) a trust is not to constitute a qualified trust under section 401 (a) of the code unless the plan of which such trust is a part satisfies specified minimum vesting standards. Under the proposed standards, an employee's rights in his accrued benefit derived from his own contributions must be nonforfeitable (other than by reason of death). Furthermore, under a qualified plan at least 50 percent of his accrued benefit derived from employer contributions would be required to be nonforfeitable (other than by reason of death) no later than the later of (i) 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) the time he has completed 3 years of continuous service with the employer (including, in accordance with regulations prescribed by the Secretary of the Treasury or his delegate, service with a predecessor of the employer). For the purpose of (i), years of age and years of active participation are to be rounded separately to the nearest whole year and active participation would not include, for example, periods after employment ceases, or periods for which employee contributions required to be made under the plan are not made. Proposed section 401 (a) (12) (A) would further require that an employee's 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 following the close of the first plan year in which such employee satisfies the initial nonforfeitability requirement. More rapid vesting than that required under proposed section 401 (a) (12) could be required under section 401 (a) (4) if necessary to prevent discrimination in favor of officers, shareholders, supervisory employees, or highly compensated employees.

Under proposed paragraph (12) (A), if an employee's active participation began in 1975 at the beginning of a plan year at age 30, and continued for a period of 15 consecutive plan years, his right to at least 50 percent of his accrued benefit derived from employer contributions would have to be nonforfeitable (other than by reason of death) no later than the close of the 10th plan year of participation and his right to all of his accrued benefit would have to be nonforfeitable (other than by reason of death) no later than the close of the 15th plan year of participation. Further, under proposed paragraph (12) (A) his right to any benefit accrued after such 15th year would have to be nonforfeitable (other than by reason of death). If, as of the close of the plan year in which the vesting standard becomes effective, participant A is age 40 and participant B is age 50, and each has participated in the plan for 10 years, A's right to at least 50 percent and B's right to 100 percent of the benefit accrued for such year would have to be nonforfeitable (other than by reason of death). (See effective date provided by sec. 2 (d) of the bill and special transitional rules provided under sec. 401 (a) (14) as proposed to be added by sec. 2 (a) of the bill.)

Subparagraph (B) of proposed section 401 (a) (12) provides that a trust, which is a part of a plan to which employees are required to contribute as a condition of participation, is not to be disqualified under proposed paragraph (12) 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. If a plan provided that a terminating employee is required to withdraw his contributions to the plan under certain circumstances, his rights in his accrued benefit may not be forfeited because of such withdrawal. Moreover, proposed section 401 (a) (12) (B) would not apply to a plan which merely permits an employee to make voluntary contributions to the plan (i.e., contributions that are not required to be made under the plan to receive a benefit (or an additional benefit) derived from employer contributions).

Subparagraph (C) of proposed section 401 (a) (12) provides that proposed paragraph (12) is not to apply to contributions which, under provisions of the plan adopted pursuant to regulations prescribed by the Secretary of the Treasury or his delegate to preclude discrimination prohibited by paragraph (4) of section 401 (a) (in favor of shareholders, officers, supervisory employees, or highly compensated employees), may not be used to provide benefits for designated employees in the event of early termination of the plan. However, except to the extent necessary to prevent the prohibited discrimination, the rights of such a designated employee must be nonforfeitable in accordance with provisions of the plan satisfying the rule of 50.

Many plans provide, for example, for the forfeiture of benefits by a participant who serves with a competitor or engages in improper conduct. To the extent provisions such as these render forfeitable those benefits which would be required to be nonforfeitable under proposed section 401 (a) (12), such provisions would require amendment. Improper conduct may, nevertheless, continue to be deterred by provisions giving an employer lien rights against employee interests in a trust to recover liabilities to the employer if permitted under local law, e.g., recovery for embezzlement.

Subparagraph (D) of proposed section 401 (a) (12) provides rules for determining the amount of an employee's accrued benefit (which are minimum amounts in the case of benefits under defined benefit pension plans), as of any applicable date, for purposes of proposed sections 401 (a) (12) and 401 (d) (2) (A) (relating to the vesting requirements of qualified plans benefiting owner-employees). Separate rules would apply for the determination of the minimum accrued benefit in the case of a defined benefit pension plan and for such determination in the case of other plans.

Clause (i) of proposed section 401 (a) (12) (D) provides general rules for determining such accrued benefit on the basis of an annual benefit commencing at normal retirement age in the case of a defined benefit pension plan. (Subparagraph (F) of proposed sec. 401 (a) (12) provides rules for the determination of a benefit other than an annual benefit commencing at normal retirement age.) The general rule provided by proposed clause (i) is that an employee's minimum accrued benefit, as of any applicable date prior to normal retirement age, is to be the product of (1) the annual benefit commencing at normal retirement age to which such employee would be entitled under the plan as in effect at such time, assuming that he continues to earn annually until normal retirement age the same rate of compensation as he earned at such time (based upon his average covered earnings during the 60 preceding months or, if shorter, the actual preceding period of employment), and (2) the following fraction: the numerator of the fraction is to be the total number of his years of service with the employer (including, in accordance with regulations prescribed by the Secretary of the Treasury of his delegate, service with a predecessor of the employer) performed as of such time and the denominator of such fraction is to be the total number of years of service he will have performed as of normal retirement age, assuming that he will continue to be employed by the employer until attaining such age. However, such denominator is not to be less than 15 nor more than 40. Notwithstanding the above rules, the fraction referred to in proposed clause (i) is to be deemed to be equal to one at normal retirement age and is never to exceed one. Thus, for example, if an employee's age is equal to or greater than normal retirement age, his annual benefit would be multiplied by one, and prior to normal retirement age the minimum accrued benefit of an employee with a level salary would accrue at a level rate, not to exceed 1/15th per year and not less than 1/40th per year. The minimum accrued benefit for an employee with 40 years of service would be equal to the annual benefit payable at normal retirement age based on assumed continuation of his present compensation to that age.

For example, employee A becomes an employee of X Corporation and a participant in its noncontributory plan at age 40 in 1976. The plan provides a pension at age 65, the normal retirement age, equal to 30 percent of the average compensation during the five years of service immediately preceding retirement. A participates in the plan for 10 years, earning average annual covered compensation in the last 60 months of $12,000. Under proposed section 401 (a) (12) (D), at the end of the 10th year, his accrued benefit is not to be less than $1,440 per year beginning at age 65 (30 percent of $12,000 multiplied by 10/25). It is anticipated that regulations prescribed by the Secretary of Treasury or his delegate would provide special rules for determining an employee's accrued benefit derived from employer contributions under a defined benefit pension plan which is integrated with social security benefits.

The last sentence of proposed section 401 (a) (12) (D) provides that, 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 is to be treated as an accrued benefit derived from employee contributions under a plan other than a defined benefit pension plan. A separate account would be required to be maintained for voluntary contributions of each participant together with the income expenses, gains and losses thereon.

Clause (ii) of proposed section 401 (a) (12) (D) provides that in the case of a plan other than a defined benefit pension plan (a profit-sharing, stock bonus, or money purchase pension plan (including a "target benefit" plan)) an employee's accrued benefit as of any applicable date is to be the balance of the account or accounts for such employee as of that time.

Subparagraph (E) of proposed section 401 (a) (12) provides rules for determining an employee's accrued benefit derived from employer contributions (which would be subject to the applicable proposed vesting standards) and from employee contributions (which would be fully nonforfeitable, except in the case of death). The first sentence of proposed section 401 (a) (12) (E) defines an employee's minimum accrued benefit derived from employer contributions as of a particular date as the excess of the employee's accrued benefit determined under proposed section 401 (a) (12) (D) as of such date over the amount of the accrued benefit derived from his employee contributions as of such date. Thus, the amount of an employee's accrued benefit derived from employer contributions depends on the terms of the plan but does not depend upon the amount of employer contributions actually made and does not depend on the value of the assets in the fund.

With respect to a plan other than a defined benefit pension plan, the amount of the accrued benefit derived from employee contributions as of any date is to be

38

the benefit attributable to the balance in his separate account consisting only of his contributions and the income, expenses, gains, and losses attributable thereto. However, if a separate account is not maintained with respect to an employee's contributions under such a plan, the amount of the accrued benefit derived from employee contributions is to be the amount which bears the same ratio to the employee's total accrued benefit as the total amount of the employee's contributions (less withdrawals) bears to the total amount of his contributions (less withdrawals) and the employer contributions (less withdrawals) made on his behalf. For this purpose, forfeitures credited to an employee's account are to be treated as employer contributions.

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 (proposed sec. 401 (a) (12) (F) provides rules for other forms), the amount of the minimum accrued benefit derived from employee contributions as of any applicable date is to be 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.

Such factor is to be 10 percent for a normal retirement age of 65 years and is to be the same for men and women. For other normal retirement ages, such factor is to be determined in accordance with regulations prescribed by the Secretary of the Treasury or his delegate.

For purposes of proposed section 401 (a) (12) (E) 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 clause (i) or (ii) of proposed section 401 (a) (14) (A) (relating to transitional rules), 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 clause (i) or (ii) of proposed section 401 (a) (14) (A), 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.

39

For purposes of subparagraph (E) of proposed section 401 (a) (12), mandatory contributions made by an employee are the contributions that are required to be made under the plan to receive a benefit (or an additional benefit) derived from employer contributions. For example, if the benefit derived from employer contributions depends upon a specified level of employee contributions, employee contributions up to that level would be treated as mandatory contributions.

Proposed section 401 (a) (12) (E) further provides that the accrued benefit derived from employee contributions is not to exceed the accrued benefit determined under subparagraph (D) of proposed section 401 (a) (12). Thus, for example, if an employee's accrued benefit determined under subparagraph (D) equals $20,000, his accrued benefit derived from employee contributions is not to be greater than $20,000 even though such benefits determined under subparagraph (E) equal $25,000.

Subparagraph (F) of proposed section 401 (a) (12) provides that, in the case of a 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 age, or if the amount of the 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 single life annuity commencing at normal retirement age, the employee's minimum accrued benefit, or the amount of the minimum accrued benefit derived from contributions made by an employee, as the case may be, is to be the actuarial equivalent (determined in accordance with regulations prescribed by the Secretary of the Treasury or his delegate) of such benefit or such amount determined under subparagraph (D) or (E) of proposed section 401 (a) (12).

It is contemplated that amendment of many existing plans would be required to conform them to the proposed rules relating to the required percentage of vesting and the definition of accrued benefit, in order to remain qualified. For instance, the United States civil service retirement system would have to be amended to conform to these rules.

Exception to vesting requirements--proposed section 401 (a) (13)

Proposed section 401 (a) (13) provides that a trust forming part of a defined benefit pension plan which is in existence on December 31, 1972, is not to be disqualified for any plan year merely because such plan provides that an employee's accrued benefit derived from employer contributions for any plan year is forfeitable if both of the following conditions are satisfied: (1) the sum of the periodic benefit payments to retired

40

participants (or their beneficiaries) during the plan year exceeds the benefit accruals (determined in accordance with regulations prescribed by the Secretary or his delegate) by active participants during the plan year, and (2) as of the beginning of the plan year, the sum of the present values of accrued plan liabilities to active and retired participants under the plan exceeds the fair market value of plan assets. Such accrued benefits for an employee during such a plan year could remain forfeitable until the employee attains retirement age under the plan.

The present values of accrued plan liabilities are to be determined in accordance with actuarial assumptions which in the aggregate are reasonable. The fair market value of plan assets held at the beginning of the plan year is to be determined on the basis of a reasonable method applied consistently, such as on the basis of their average value during the preceding year.

Subparagraph (B) of proposed section 401 (a) (13) provides that this exception is not to apply for any plan year beginning after December 31, 1972, if the plan is amended during such plan year to provide additional or increased benefits (for example, by lowering the retirement age or raising benefit levels). For this purpose, neither a reduction in eligibility requirements to comply with applicable law nor an increase in the rate of vesting would be deemed to result in additional or increased benefits. If the plan is so amended, the exception will also not apply to any succeeding plan year or to any plan year which begins after December 31, 1972, and which precedes the plan year in which the plan is amended by not more than 5 plan years.

Transitional rules--proposed section 401 (a) (14)

Proposed section 401 (a) (14) (A) (i) provides that proposed paragraphs (11) and (12) of section 401 (a), relating to eligibility of participants and nonforfeitability of accrued benefits, respectively, are not to apply, in the case of a plan in existence on December 31, 1972, with respect to a plan year which begins before January 1, 1975. However, if later, in the case of a plan maintained pursuant to an agreement which the Secretary of the Treasury or his delegate finds to be a collective bargaining agreement between employee representatives and one or more employers, in effect on December 31, 1972, proposed paragraphs (11) and (12) of section 401 (a) are not to apply to a plan year ending before the termination of the agreement. For purposes of determining the date on which such an agreement terminates, an extension agreed to after December 31, 1972, would be disregarded. Thus, in the case of such a collectively bargained plan, the proposed rules relating to nonforfeitability of accrued benefits would generally not apply to benefits accrued during plan years ending before the expiration of the collective bargaining agreement in effect on December 31, 1972.

Generally, subparagraph (B) of proposed section 401 (a) (14) provides an exception to the application of the transitional rules under subparagraph (A) of proposed section 401 (a) (14). Subparagraph (B) of proposed section 401 (a) (14) provides that proposed section 401 (a) (12), relating to nonforfeitability of accrued benefits, is to apply to all benefits accrued under the plan unless the conditions of nonforfeitability under the plan as in effect on December 31, 1972, remain in effect with respect to benefits accrued during plan years beginning before January 1, 1975 (or, if applicable, the appropriate later date in the case of a plan maintained pursuant to a collective bargaining agreement). For this purpose the conditions of nonforfeitability are to be deemed to remain in effect so long as such conditions are not amended to provide for the forfeiture of amounts which would not have been forfeited but for the amendment.

Subparagraph (B) of proposed section 401 (a) (14) further provides that, in the case of a profit-sharing, stock bonus, or money purchase pension plan, proposed section 401 (a) (12) is to apply to all benefits accrued under a plan unless separate accounts are maintained with respect to the benefits accrued during plan years beginning before January 1, 1975 (or, if applicable, the appropriate later date in the case of a plan maintained pursuant to a collective bargaining agreement).

4/2

(b) Plans benefiting owner-employees.--Section 2 (b) of the bill would amend section 401 (d) of the code (relating to additional requirements for qualification of trusts and plans benefiting owner-employees). Paragraph (1) of section 2 (b) of the bill would revise the conditions for nonforfeitability of benefits under such a plan. Paragraph (2) of section 2 (b) of the bill would revise the service requirements for participation in a qualified plan benefiting an owner-employee.

Conditions for nonforfeitability of benefits--section 401 (d) (2) (A)

Section 401 (d) (2) (A) of the code provides that an employees' trust, in which an owner-employee (defined in sec. 401 (c) (3) of the code as a sole proprietor or a partner who owns more than 10 percent of the capital interest or the profits interest in a partnership) participates, constitutes a qualified trust under section 401, only if under the plan of which such trust is a part the rights of each participant in the plan to or derived from employer contributions are fully nonforfeitable at the time such contributions are made.

Paragraph (1) of section 2 (b) of the bill would amend section 401 (d) (2) (A) to provide minimum vesting standards which must be met if such a trust is to constitute a qualified trust under section 401. Under the proposed standards, an employee's rights in his accrued benefit derived from his own contributions (within the meaning of proposed sec. 401 (a) (12)) must be nonforfeitable (other than by reason of death). Furthermore, his rights in at least 50 percent of his accrued benefit derived from employer contributions (within the meaning of proposed sec. 401 (a) (12)) must be 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 participation in the plan equals or exceeds 35 years.

Proposed section 401 (d) (2) (A) would further require that an employee's 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 following the close of the first plan year in which such employee satisfies the initial nonforfeitability requirement. As under present law, an employee's rights in employer contributions to a plan would not be required to be nonforfeitable to the extent that, under provisions of the plan adopted pursuant to

4/3

regulations prescribed by the Secretary of the Treasury or his delegate to preclude the discrimination prohibited by section 401 (a) (4) of the code, such contributions may not be used to provide benefits for designated employees in the event of early termination of the plan. Further, more rapid vesting could be required if necessary to prevent discrimination in favor of self-employed individuals, supervisory employees, or highly compensated employees.

Conditions for participation--section 401 (d) (3)

Section 401 (d) (3) of the code provides that an employee's trust, in which an owner-employee (as defined in sec. 401 (c) (3)) participates, does not constitute a qualified trust under section 401 of the code unless the plan of which such trust is a part benefits each employee having a period of employment of 3 years or more. For this purpose, the term "employee" does not include any employee whose customary employment is for not more than 20 hours in any one week or is for not more than 5 months in any calendar year.

Section 2 (b) (2) of the bill would amend section 401 (d) (3) to provide that such a trust is not to constitute a qualified trust under section 401 unless the plan benefits each employee having a period of continuous service with the employer of 3 years or more who is younger than 30 years of age, each employee having a period of continuous service with the employer of 2 years or more who has attained the age of 30 years but is younger than 35 years of age, and each employee having a period of continuous service with the employer of 1 year or more whose age is 35 years or greater. Also, for this purpose, the term "employee" is not to include any employee who is included in a unit of employees covered by an agreement which the Secretary of the Treasury or his delegate finds to be a collective bargaining agreement, if such agreement does not provide that such employee is to be included in the plan. Under regulations to be prescribed by the Secretary of the Treasury or his delegate, the term "employer" would include a predecessor of an employer.

(c) Conforming amendments.--Section 2 (c) of the bill would make conforming amendments to section 404 (a) (2) of the code (relating to deduction for contributions of an employer to employees' annuity plan), section 405 (a) (1) of the code (relating to qualified bond purchase plans), and section 805 (d) (1) (C) of the code (relating to definition of pension plan reserves). Paragraphs (1) and (2) of section 2 (c) would extend to employees' annuity plans and qualified bond purchase plans, respectively, that do not utilize trusts, the requirements that would be imposed upon plans utilizing trusts by subsections (a) (2) and (b) of section 2 of the bill. Paragraph (3) of section 2 (c) would conform the definition of "pension plan reserves" in section 805 (d) to reflect the new requirements described above.

(d) Effective dates.--Section 2 (d) of the bill provides that generally, the amendments proposed to be made by section 2 of the bill are to become effective after the date of enactment of the bill. The amendment proposed to be made to section 401 (d) (3) of the code (relating to eligibility conditions with respect to a plan providing benefits for an owner-employee) by section 2 (b) (2) of the bill is not to 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.

Section 3. Deduction for Retirement Savings.

(a) In general.--Section 3 (a) of the bill would amend part VII of subchapter B of chapter 1 of the code (relating to additional itemized deductions for individuals) by redesignating section 219 (containing cross references) as section 220 and by inserting after section 218 a new section 219 which would allow individuals a limited deduction for certain amounts saved for retirement purposes. Section

3 (e) (2) of the bill would amend section 62 of the code to provide that the deduction allowed by proposed section 219 is to be taken into account in computing adjusted gross income.

Deduction allowed--proposed section 219 (a)

Under existing law, an individual (other than a self-employed individual) is not allowed any deduction for amounts which he saves for retirement purposes. On the other hand, a participant in a qualified pension, annuity, profit-sharing, stock bonus or bond purchase plan is allowed to exclude from his gross income amounts contributed by his employer on his behalf to the plan, even though his rights in such amounts may be nonforfeitable.

45

Proposed section 219 (a) provides that, subject to the limitations imposed by proposed section 219 (b), (c), and (h), an individual (including a self-employed individual) is to be allowed a deduction for amounts paid in cash during his taxable year by him (1) to or under a qualified individual retirement account (as defined in sec. 408 (a) of the code (as proposed to be added by sec. 3 (b) of the bill)) which is exempt from tax under section 501 (a) if the individual established such account, (2) to an exempt employees' trust described in section 401 (a) of the code, for the benefit of the individual, (3) for the purchase of an annuity contract for the individual under a plan which meets the requirements of section 404 (a) (2) of the code (relating to employee annuities), or (4) to or under a qualified bond purchase plan (described in sec. 405 (a) of the code (relating to qualified bond purchase plans)), for his benefit. The requirement that the contribution paid by the individual be for his benefit has the effect of denying the deduction to an individual who contributes to an employees' trust in which he is not a participant.

Limitations on deduction--proposed section 219 (b)

Paragraph (1) of proposed section 219 (b) provides that the amount allowable as a deduction under proposed section 219 (a) to an individual for any taxable year is not to 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 on the deductible amount is to apply to the sum of the amounts paid during such taxable year by such individual to or under all accounts, trusts, and plans described in proposed section 219 (a). The general limitation computed under this paragraph is to be reduced under paragraphs (2) and (3) of proposed section 219 (b).

Paragraph (2) of proposed section 219 (b) provides that the amount of the limitation determined under proposed section 219 (b) (1) for any taxable year is to be reduced by the amount (determined under regulations prescribed by the Secretary of the Treasury or his delegate) of contributions paid on behalf of the individual by his employer (including a sole proprietor or partnership treated as an employer under sec. 401 (c) (4)) for the individual's taxable year to an exempt employees' trust which qualifies under section 401 (a), for the purchase of an annuity contract under a qualified annuity plan which meets the requirements of section 404 (a) (2) (including a plan described in sec. 805 (d) (1) (C)), to or under a qualified bond purchase plan described in section 405 (a), or for the purchase of an annuity contract described in section 403 (b) of the code (relating to annuities purchased by a sec. 501 (c) (3) organization or by a public school). This reduction is to be made even though the employee's rights under the plan are forfeitable in whole or in part.

Proposed section 219 (b) (2) provides that under regulations prescribed by the Secretary of the Treasury or his delegate, the amount of any such contributions (other than for the purchase of an annuity contract described in section 403 (b)) 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 which is attributable to the performance of personal services for such employer. This choice is to be available even where it may be readily demonstrated that the actual employer contributions on behalf of the taxpayer exceed 7 percent of such earned income. However, proposed section 219 (b) (2) provides that the option to treat such employer contributions to such a trust or plan as not exceeding 7 percent is not to apply in the case of a contribution on behalf of an owner-employee within the meaning of section 401 (c) (5) of the code. Thus, for example, a partner owning more than a 10 percent interest in the partnership would not have the option to treat partnership contributions made on his behalf to or under a plan maintained by the partnership as being equal to 7 percent of his earned income if they exceed that percentage.

Paragraph (3) of the proposed section 219 (b) provides that, if an individual has earned income for the taxable year which is not subject to tax under the Self-Employment Contributions Act of 1954 (chapter 2 of the code), the Federal Insurance Contributions Act (chapter 21 of the code), or the Railroad Retirement Tax Act

47

(chapter 22 of the code), the limitation on the deductible amount computed under paragraphs (1) and (2) is to be further reduced by an amount equal to the tax (or, if such individual has some earned income which is subject to any of such taxes, the increase in tax) that would have been imposed upon such income under section 3101 of the code (relating to rate of tax on employees under the Federal Insurance Contributions Act) for such taxable year if such income constituted wages (as defined in sec. 3121 (a) of the code) received by such individual with respect to employment (as defined in sec. 3121 (b) of the code).

Paragraph (4) of proposed section 219 (b) provides that no deduction is to be allowed under proposed section 219 for a taxable year with respect to any payment described in section 219 (a) which is made by an individual who has attained the age of 70-1/2 years before the end of such year.

The application of proposed section 219 (b) may be illustrated by the following example:

Example. A is employed solely by the United States and is a participant in the Civil Service Retirement System. A's taxable year is the calendar year, and for 1975, his compensation is $10,000 and the amount of his contributions to the Civil Service Retirement System is

$700. (It is assumed that the Civil Service Retirement System will be amended to conform to the requirements of the Retirement Benefits Tax Act for 1975.) The amount allowable as a deduction under proposed section 219 (a) for 1975 is determined in the following manner:

1.	A's contributions which may be taken into account under proposed section 219 (a)		$700.00
2.	The lesser of 20 percent of A's earned income (proposed sec. 219 (b) (1)) for 1975 or $1,500	$1,500	
3.	Employer contributions to Civil Service Retirement System (7 percent of $10,000 (proposed sec. 219 (b) (2)))	$ 700	
4.	Tax that would be imposed for 1975 under section 3101 if compensation constituted wages (5.85 percent of $10,000 (proposed sec. 219 (b) (3) reduction))	585	
5.	Sum of items (3) and (4)	$1,285	
6.	Limitation under proposed section 219 (b) (item (2) less item (5))		$215.00
7.	Amount allowable as a deduction under proposed section 219 (a) (lesser of item (1) or item (6))		$215.00

<u>Recontributed amounts--proposed section 219 (c)</u>

Subsection (c) of proposed section 219 provides that no deduction is to be allowable under proposed section 219 with respect to a contribution described in section 72 (p) (2) (C) (as proposed to be added by sec. 3 (c) (9) of the bill), 402 (a) (6) or (7)

48

(as proposed to be added by sec. 5 (a) (2) of the bill), or 403 (a) (4) or (5) (as proposed to be added by sec. 5 (b) (2) of the bill). Proposed sections 72 (p) (2) (C), 402 (a) (6) and (7), and 403 (a) (4) and (5), provide "roll-over" rules under which certain distributions received from a qualified individual retirement account or a qualified trust or plan may be contributed within a specified period to another qualified account, trust, or plan and excluded from gross income for the taxable year in which the distribution is received. Thus, taxation of distributions "rolled-over" to another plan, trust, or account would generally be deferred until distributions commenced from the other plan, trust, or account. Proposed section 219 (c) would deny any deduction under proposed section 219 for these "roll-over" contributions.

<u>Married individuals--proposed section 219 (d)</u>

Subsection (d) of proposed section 219 provides special rules in the case of a married individual. The marital status of an individual is to be determined under the rules provided in section 153 of the code (relating to determination of marital status for purposes of personal exemptions). Proposed section 219 (d) provides that in the case of a married individual, the limitation under proposed section 219 (b) (1) is to be determined without regard to the earned income of his spouse and without regard to contributions described in proposed section 219 (b) (2) paid on behalf of his spouse.

For purposes of proposed section 219, the earned income of a married individual is to be determined without regard to community property laws of a State. Thus, for example, an individual could contribute his own earnings to a qualified account even though such earnings would be community property under State law.

Earned income defined--proposed section 219 (e)

Subsection (e) of proposed section 219 defines the term "earned income" for purposes of proposed section 219 as any income which is earned income within the meaning of section 401 (c) (2) of the code (defining earned income in the case of a self-employed individual) or of section 911 (b) of the code (defining earned income in the case of a common-law employee).

Time contributions deemed made--proposed section 219 (f)

Subsection (f) of proposed section 219 provides that for purposes of proposed sections 219 and 408, an individual is to be deemed to have made a payment during the taxable year if the payment is on account of such taxable year and is made no later than the time prescribed by law for filing the return for such taxable year (including extensions thereof). This rule corresponds to the rule presently provided in section 404 (a) (6) for a contribution by an accrual basis employer to a qualified plan. (Sec. 7 (h) (4) of the bill would amend sec. 404 (a) (6) to extend the rule to cash basis employers.)

Regulations--proposed section 219 (g)

Subsection (g) of proposed section 219 provides that the Secretary of the Treasury or his delegate is to be authorized to prescribe such forms and regulations as may be necessary to carry out the purposes of proposed section 219 including forms on which employers may be required to furnish needful information to employees. Such forms are to be furnished to employees at such time as the Secretary of the Treasury or his delegate may by regulations prescribe.

Section 6690 (as proposed to be added by sec. 7 (j) of the bill) would prescribe assessable civil penalties for an employer's failure to furnish information to his employees as required under this section.

Special limitation for 1973--proposed section 219 (h)

Subsection (h) of proposed section 219 provides that for taxable years ending before January 1, 1974, the amount allowable as a deduction under proposed subsection (a) is not to exceed 50 percent of the limitation determined under proposed subsection (b). Thus, for example, if for a taxable year ending in 1973, the limitation under proposed subsection (b) for an individual is $215 (without regard to proposed sec. 219 (h)), the maximum amount allowable as a deduction under proposed section 219 would be $107.50.

(b) Individual retirement accounts.--Section 3 (b) of the bill would amend part I of subchapter D of chapter 1 of the code (relating to pension, etc., plans) by adding a new section 408. Proposed section 408 would provide rules for the establishment and maintainance of qualified individual retirement accounts which individuals could utilize for saving for retirement purposes, and would also provide rules for the taxation of distributions from qualified individual retirement accounts.

Requirements for qualification--proposed section 408 (a)

Proposed section 408 (a) provides that, if certain requirements are satisfied, a trust created or organized in the United States is to constitute a qualified individual retirement account. Proposed section 408 (a) provides that, for purposes of the code, a custodial account, annuity contract, or other similar arrangement is to be treated as a trust constituting a qualified individual retirement account, if otherwise qualified. The requirements for qualification would be required to be set forth in a written governing instrument. It is contemplated that, in an appropriate case, a plan similar to a dividend reinvestment plan of a regulated investment company might constitute a "similar arrangement", even though no certificates are issued, provided there is an appropriate governing instrument for the plan.

Paragraph (1) of proposed section 408 (a) provides that an individual retirement account is not to constitute a qualified individual retirement account unless its governing instrument provides that the account is maintained for the purpose of distributing the contributions to such account and the income derived from such contributions to the individual who established it or his beneficiaries. Distributions from the account could be in the form of money or property. The payment of an expense or obligation on behalf of or for the benefit of a beneficiary would be considered a distribution to such beneficiary. Such an account is to be considered to be maintained for the purpose of distributing the contributions thereto and the income therefrom to the individual who established it or his beneficiaries even though the assets of the account include policies which have life or disability insurance features if such features are incidental to the purpose of providing benefits in a manner which satisfies proposed sections 408 (a) (5) and (6).

Paragraph (2) of proposed section 408 (a) requires that the governing instrument of a qualified individual retirement account provide that

except in the case of a "roll-over" contribution described in section 72 (p) (2) (C) (as proposed to be added by sec. 3 (c) (9) of the bill), section 402 (a) (6) (as proposed to be added by sec. 5 (a) (2) of the bill), or section 403 (a) (4) (as proposed to be added by sec. 5 (b) (2) of the bill), the amount of contributions to such account during any taxable year is not to exceed a specified amount. This specified amount is the excess of the limitation provided by proposed section 219 (b) for such taxable year over the sum of the amounts paid by such individual during such year to a qualified pension, etc., plan for such individual's benefit, for the purchase of an annuity contract for the individual under a qualified annuity plan, or to or under a qualified bond purchase

52

plan described in section 405 (a), for his benefit. Paragraph (2) of proposed section 408 (a) further requires that such instrument provide that contributions to the account may be made only by the individual who established the account. However, proposed section 408 (b) (2) would permit certain community property of the individual and his spouse to be contributed.

Paragraph (3) of proposed section 408 (a) requires that the governing instrument of a qualified individual retirement account provide that the assets of the account may not be commingled with other property except in a common trust fund. This requirement would not prohibit the assets from being held in a custodial account or invested in an annuity contract.

Paragraph (4) of proposed section 408 (a) would require that the assets of a qualified individual retirement account be held by a bank (as defined in sec. 401 (d) (1) of the code) or other person (including the issuer of an annuity contract) who demonstrates to the satisfaction of the Secretary of the Treasury or his delegate that the manner in which he will hold such assets will be consistent with the requirements of proposed section 408. It is contemplated that regulations prescribed under proposed section 408 (a) (4) will provide that neither the transfer nor redemption of such assets may be effected without the consent of the holder of the assets.

Paragraph (5) of proposed section 408 (a) requires that the governing instrument of a qualified individual retirement account provide that the entire interest (i.e., the contributions to such account and the income derived from such contributions) of the individual who established such account must be distributed to him if he is then alive not later than the last day of his taxable year in which he attains the age of 70-1/2. Alternatively, the instrument may provide that such interest will be distributed periodically, commencing no later than the last day of such taxable year, over the life of such individual or the lives of such individual and his spouse or over a period not extending beyond the life expectancy of such individual or the life expectancy of such individual and his spouse. The Secretary of the Treasury or his delegate would be given authority to prescribe regulations with respect to these alternative methods of distribution. If such individual's entire interest is to be distributed in the form of an annuity contract, the requirements of proposed section 408 (a) (5) would be satisfied if the distribution of such contract is to take place on or before the last day of the taxable year in which such individual attains the age of 70-1/2 and if such interest is to be paid over a period allowable under proposed section 408 (a) (5). Paragraph (5) of proposed section 408 (a) provides the same rule presently provided with respect to self-employed individuals under section 401 (a) (9) of the code.

Paragraph (6) of proposed section 408 (a) requires that the governing instrument of a qualified individual retirement account provide that if the individual who established the account dies before his entire interest has been distributed to him, or if distribution has commenced in accordance with the requirements of proposed section 408 (a) (5) to his surviving spouse and such 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 has commenced) will be distributed or applied in a certain manner. The instrument would be required to provide that such entire interest (or such remaining part) 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. This is the same rule presently provided with respect to self-employed individuals who are owner-employees under section 401 (d) (7) of the code.

If contributions to a qualified individual retirement account may be used for the purchase of annuity or similar contracts, paragraph (7) of proposed section 408 (a) requires the governing instrument to provide that any refunds of premiums are to be held by the issuer of the contract with respect to which such refund of premiums arises and applied within the current taxable year or the next succeeding taxable year of the account toward the payment of future premiums under such contract or toward the purchase of additional benefits. This is the same rule presently provided with respect to qualified annuity plans under section 404 (a) (2) of the code.

Proposed section 408 (a) provides that section 408 (a) (6) (relating to requirement of distribution in the case of death) is not to apply if distribution of the interest

57

of such individual has commenced and such distribution is for a term certain over a period permitted under proposed paragraph 408 (a) (5) (relating to requirements as to the time of distribution). These are the same rules presently provided under section 401 (d) (7) of the code.

Special rules--proposed section 408 (b)

Proposed section 408 (b) provides special rules for the application of section 408.

Excess contributions--proposed section 408 (b) (1)

Proposed section 408 (b) (1) provides that, if all or a portion of the contributions paid by an individual during any taxable year to a qualified individual retirement account are not deductible under section 219 of the code, as proposed to be added by section 3 (a) of the bill (other than by reason of proposed sec. 219 (c), relating to recontributed amounts), under regulations prescribed by the Secretary of the Treasury or his delegate, such contributions or portion thereof are to be treated in the same manner as an excess contribution within the meaning of section 401 (e) (1) of the code. For this purpose, section 401 (e) (2) and (3) of the code (relating to effect of excess contribution and contributions for premiums on annuity, etc., contracts) are to apply as if such individual were an owner-employee. Thus, for example, if a portion of the contributions during any taxable year to such an account is not deductible under proposed section 219 (a) because it exceeds the limitation of proposed section 219 (b), the account is to be considered as not meeting the requirements of proposed section 408 (a) for such taxable year and all succeeding taxable years unless such portion (and the net income derived therefrom) is repaid to the taxpayer before the close of the 6-month period beginning on the day on which the Secretary of the Treasury or his delegate sends notice to the person to whom such excess contribution was paid of the amount of such excess contribution. In addition, if such a contribution were determined to have been willfully made, the taxpayer's interest in all individual retirement accounts is to be distributed to him, and any

35

individual retirement account maintained by him during his taxable year in which such non-deductible contribution was made and the 5 succeeding taxable years is not to be considered a qualified individual retirement account.

The foregoing rules are not to apply to contributions to a qualified individual retirement account if, under the governing instrument of the account, such contributions must be applied to pay premiums or other consideration for one or more annuity, endowment, or life insurance contracts on the life of the individual making any such contribution and if the amount of such contributions does not exceed the average deductible amount under proposed section 219 for the first 3 taxable years preceding the year in which the last such contract was issued. Thus, for example, if an individual who has earned income of $6,000 for each taxable year of a 3-year period purchases through a qualified individual retirement account a life insurance policy on which the annual premium is $1,200 (i.e., 20 percent of $6,000), he may continue to contribute the amount of the premium annually even though his earned income falls below $6,000. However, amounts which may be contributed under this exception are to be deductible only to the extent that they do not exceed the limitations of proposed section 219 (b).

Community property laws -- proposed section 408 (b) (2)

Proposed section 408 (b) (2) provides that proposed section 408 is to be applied without regard to the community property laws of any State. This provision is intended to allow a married individual in a community property State to establish and maintain a qualified individual retirement account even though under such laws contributions to the account or a portion thereof may be community property.

Treatment as qualified trust benefiting owner-employee -- proposed section 408 (c)

Proposed section 408 (c) provides that, solely for purposes of subchapter F of chapter 1 of the code (relating to exempt organizations), chapter 44 of subtitle D of the code (relating to excise tax on prohibited transactions as proposed to be added by sec. 6 (b) of the bill), and subtitle F of the code (relating to procedure and administration), a qualified individual retirement account is to be treated as a trust described in section 401 (a) of the code which is part of a plan providing contributions or benefits for employees some or all of whom are owner-employees (as defined in sec. 401 (c) (3) of the code), the individual who established such account is to be treated as an owner-employee for whom such contributions and benefits are provided, and the person holding the assets of such account is to be treated as the trustee of such trust. Proposed chapter 44 (relating to excise tax on prohibited transactions) is not to be applied to a contribution to a qualified individual retirement account in the case of a contribution to which a "roll-over" provision applies. (For "roll-over" provisions, see sec. 72 (p) (2) (C) of the code (as proposed to be added by sec. 3 (c) (9) of the bill), sec. 402 (a) (6) of the code (as proposed to be added by sec. 5 (a) (2) of the bill), and sec. 403 (a) (4) of the code (as proposed to be added by sec. 5 (b) (2) of the bill).)

Thus, the income derived from contributions to a qualified individual retirement account is to be exempt from tax except to the extent that such income constitutes unrelated business taxable income to which the tax imposed by section 511 (b) of the code applies. In addition, the excise taxes on prohibited transactions (other than in the case of certain "roll-over" contributions) provided by section 4971 of the code (as proposed to be added by sec. 6 (b) of the bill) are to apply to a qualified individual retirement account. (A contribution of property pursuant to the "roll-over" provisions is not to constitute a prohibited transaction.) Moreover, the provisions of section 6033 of the code (relating to returns by exempt organizations) and section 6047 of the code (relating to information regarding certain trusts and annuity and bond purchase plans) are also to apply, and the person holding the assets of such an account would be required to file the information returns and other material required under those provisions.

Because a qualified individual retirement account is not to be treated as a trust described in section 401 (a) for purposes of subtitle B of the code (relating to estate and gift taxes), the exclusions provided by section 2039 (c) of the code (relating to annuities under certain trusts and plans) and section 2517 (relating to certain annuities under qualified plans) are not to apply with respect to the transfer of an interest in a qualified individual retirement account. Further, section 72 (n) of the code (relating to treatment of total distributions), section 402 (a) (2) of the code (relating to capital gains treatment for certain distributions from exempt employees' trusts), and section 403 (a) (2) of the code (relating to capital gains treatment for certain distributions under qualified annuity plans) are not to apply to any amount distributed or paid by a qualified individual retirement account. Thus, no part of any such amount is to be treated as gain from the sale or exchange of a capital asset, and the income tax with respect to any such amount is not to be limited under section 72 (n) of the code (relating to treatment of total distributions).

Taxability of beneficiary--proposed section 408 (d) (1)

Paragraph (1) of proposed section 408 (d) provides that, except as provided in proposed section 408 (d) (2) and (3) (relating to recontributed amounts and excess contributions, respectively), the amount actually paid, distributed, or made available to any payee or distributee by a qualified individual retirement account is to be taxable to such person in the year in which actually paid or distributed under section 72 of the code (relating to annuities).

Recontributed amounts--proposed section 408 (d) (2)

Proposed section 408 (d) (2) provides that amounts paid or distributed by a qualified individual retirement account, except such amounts distributed pursuant to provisions of the governing instrument meeting the requirements of proposed section 408 (a) (5) (relating to time of distribution), are not to be includible in gross income when so paid or distributed to the extent that such amounts are not subject to the tax imposed by section 72 (p) (3) (relating to the penalty on premature distributions (as proposed to be added by sec. 3 (c) (9) of the bill)) by reason of the application of section 72 (p) (2) (C) (relating to a "roll-over" from a qualified individual retirement account to another such account). Thus, if an individual who established a qualified individual retirement account desires to change the funding medium or trustee and such change requires a "roll-over", the "roll-over" is not to be a taxable event if certain requirements are satisfied (see discussion under section 5 of the bill).

Applicability of section 72 (m)--proposed section 408 (d) (3)

Proposed section 408 (d) (3) provides that, under regulations prescribed by the Secretary of the Treasury or his delegate, an individual who establishes a qualified individual retirement account is to be treated as an owner-employee (as defined in sec. 401 (c) (3) of the code) for purposes of applying the provisions of paragraphs (2) and (4) of section 72 (m) of the code (relating to the computation of consideration paid by the employee and amounts constructively received). Thus, notwithstanding section 72 (m) (6) of the code (defining "owner-employee" for purposes of sec. 72 (m)), an individual who establishes a qualified individual retirement account is to be treated as an owner-employee for purposes of paragraphs (2) and (4) of section 72 (m) of the code.

For purposes of computing an individual's or employee's investment in the contract, amounts allowed as a deduction under section 219 (a) (as proposed to be added by sec. 3 (a) of the bill) and any portion of the premiums or other consideration for the contract which is properly allocable to the cost of life, accident, health, or other insurance are not to be taken into account. In this regard, any contribution to a qualified individual retirement account which is allowed as a deduction under proposed section 219 (a), and any income of such account, which is applied to purchase the life insurance protection under any retirement income, endowment, or other life insurance contract is includible in the gross income of the individual who established such account for the year in which so applied. This would be accomplished by amending section 72 (m) (2) and 72 (m) (3) (B) and by adding section 408 (d) (3) of the code (by sec. 3 (c) (2), (3), (4), (5), and (6) of the bill). This is the same treatment provided under present law in certain situations by sections 72 (m) (2) and (3) (B) of the code.

If an individual who establishes a qualified individual retirement account assigns or pledges (or agrees to assign or pledge) any portion of his interest in such account, such portion is to be treated as having been received by such individual as a distribution from such account for his taxable year in which such assignment, pledge, or agreement occurs. This is the same treatment provided under present law by section 72 (m) (4) (A) of the code for owner-employees. This treatment would be extended to an individual who establishes a qualified individual retirement account under section 72 (m) (4) (A) (as proposed to be amended by sec. 3 (c) (7) of the bill) and proposed section 408 (d) (3).

If the assets of a qualified individual retirement account include a life insurance contract, and the individual who established such account receives, directly or indirectly, any amount from the issuer of such contract

59

as a loan under such contract, such amount is to be treated as an amount received under such contract. Thus, such an individual is to be considered to have received an amount under such a contract, if a premium which is otherwise in default is paid by the issuer of such contract in the form of a loan against the cash surrender value of such contract. This is the same treatment provided under present law by section 72 (m) (4) (B) of the code for owner-employees. This treatment would be extended to an individual who establishes a qualified individual retirement account under proposed section 72 (m) (4) (B) (as proposed to be amended by sec. 3 (c) (8)) and proposed section 408 (d) (3).

Treatment of nonexempt account--proposed section 408 (e)

Proposed section 408 (e) provides that if, for the preceding taxable year of a trust, custodial account, annuity contract, or other similar arrangement, such trust or arrangement was a qualified individual retirement account and was exempt from tax under section 501 (a), and if for the taxable year such trust or arrangement is not exempt from tax under section 501 (a), then the fair market value of the contract or the property held under the trust or arrangement at the beginning of the taxable year, reduced by contributions which were not deductible under proposed section 219 (other than "roll-over" contributions which were not deductible by reason of proposed sec. 219 (c)), is to be included in the gross income of the individual who established the trust or arrangement (or his beneficiary) as if such trust's or arrangement's assets had been distributed to him on the first day of the trust's or arrangement's taxable year.

Thus, for example, if A's account which is exempt from taxation under section 501 (a) in its taxable year beginning in 1980 were to lose its exemption in 1981 because of a transfer from the account to a person not described in proposed section 408 (a) (4), the fair market value of the account would be includible in A's 1981 gross income to the extent provided by proposed section 408 (e).

Special rule--proposed section 408 (f)

Proposed section 408 (f) provides that solely for purposes of determining whether section 72 (p) (2) (C) (as proposed to be added to the code by section 3 (c) (9) of the bill) applies to a contribution under proposed section 408 (a) (2) (relating to "roll-overs") or to an amount paid or distributed under proposed section 408 (d) (2) (relating to "roll-overs"), the requirement of proposed section 72 (p) (1) that the amount paid or distributed be received before age 59-1/2 is not to apply. Thus, a "roll-over" could be made from a qualified individual retirement account to another such account by an individual who is older than age 59-1/2.

60

Cross references --proposed section 408 (g)

Proposed section 408 (g) provides appropriate cross references.

(c) Treatment of distributions from qualified individual retirement accounts.--Section 3 (c) of the bill would amend section 72 of the code (relating to annuities) to revise the rules relating to amounts received before the annuity starting date by an owner-employee and to provide rules for the taxation of distributions from qualified individual requirement accounts.

Paragraph (1) of section 3 (c) of the bill would repeal section 72 (m) (1) of the code (relating to certain amounts received before annuity starting date). Under present law, amounts received under a qualified plan, before the annuity starting date, which are not received as an annuity, are included in the recipient's gross income for the taxable year in which received to the extent that such amounts, plus all amounts previously received and includible in gross income, do not exceed the aggregate premiums or other consideration paid for the contract while the employee was an owner-employee which were allowed as deductions under section 404 of the code. Under this rule, tax-deferred amounts are deemed paid before previously taxed amounts are distributed. On the other hand, amounts received before the annuity starting date by an employee who is not an owner-employee are not includible in gross income under section 72 (e) of the code to the extent such amounts do not exceed the employee's investment in the contract. Under this rule, previously taxed amounts are deemed distributed before tax-deferred amounts. The effect of the proposed repeal of section 72 (m) (1) would be to extend the rules of section 72 (e) to an owner-employee (and an individual who establishes a qualified individual retirement account described in proposed sec. 408 (a)).

Further, section 7 (e) of the bill would amend section 401 (d) (4) (B) of the code (relating to additional requirements for qualification of trusts and plans benefiting owner-employees) to permit distributions of an owner-employee's nondeductible contributions from a qualified plan before such owner-employee has attained the age of 59-1/2 years.

Thus, the rules relating to amounts received before the annuity starting date would be uniformly applied. However, certain special rules relating to certain premature distributions would continue to apply with respect to owner-employees (sec. 72 (m) (5) of the code) and, as detailed below, would also apply with respect to an individual who establishes a qualified individual retirement account (proposed sec. 72 (p) (as proposed to be added by sec. 3 (c) (9) of the bill)).

Paragraph (2) of section 3 (c) of the bill would revise the rules, under section 72 (m) (2), relating to the computation of consideration paid by the employee, to treat any amount allowed as a deduction under section 219 of the code (as proposed to be added by sec. 3 (a) of the bill) as consideration contributed by the employer.

Paragraphs (3), (4), (5), and (6) of section 3 (c) of the bill would amend section 72 (m) (3) of the code (relating to life insurance contracts) to provide that amounts applied to purchase life insurance protection by a qualified individual retirement account are includible in gross income of the individual who established it for the taxable year when so applied. Upon the death of such individual, an amount equal to the cash surrender value of such contract immediately before his death is to be treated as distributed by such account and the excess of the amount payable by reason of such individual's death over such cash surrender value is to be treated in the manner provided in section 101 of the code (relating to certain death benefits).

62

Paragraphs (7) and (8) of section 3 (c) of the bill would amend section 72 (m) (4) of the code (relating to amounts constructively received) so that the assignment or pledge of an interest in a qualified individual retirement account, or a loan under a contract purchased by such an account, would be treated in the same manner as if a qualified pension, etc., trust or a qualified annuity plan were involved.

Paragraph (9) of section 3 (c) of the bill would redesignate section 72 (p) of the code (relating to cross references) as section 72 (q) and add a new section 72 (p).

<u>Taxation of premature distributions--proposed section 72 (p)</u>

Paragraph (1) of proposed section 72 (p) provides that proposed section 72 (p) is to apply to amounts paid or distributed (i) by a qualified individual retirement account or (ii) by an exempt qualified trust (described in sec. 401 (a) of the code) or under a qualified annuity plan (described in sec. 403 (a) of the code), but only to the extent that such amount is attributable, as determined under regulations to be prescribed by the Secretary of the Treasury or his delegate, to amounts with respect to which a deduction was allowed under proposed section 219 (a). Proposed section 72 (p) is to apply only to amounts which are includible in the gross income of the distributee or payee and which are received before the individual who was allowed such deduction attains the age of 59-1/2 years.

Paragraph (2) of proposed section 72 (p) provides three limitations which, if met, will cause the penalty (which would otherwise be imposed by proposed sec. 72 (p) (3)) not to apply to the amounts described in proposed section 72 (p) (1). The first limitation excludes payments or distributions made to such individual on account of his becoming disabled within the meaning of section 72 (m)(7) of the code. For this purpose, amounts paid or distributed to the estate or other beneficiary of a deceased individual before the time he would have attained age 59-1/2 if he had lived are to be treated as disability payments. The second limitation excludes any amount includible in gross income under section 72 (m) (3) (B) of the code (relating to amounts applied to purchase life insurance protection). The third limitation excludes any amount 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 (less any nontaxable portion) to another qualified individual retirement account established by such individual.

63

The third limitation is not to be applicable for a taxable year if during the three-year period ending on the date such amount is received, the individual previously received an amount from any qualified individual retirement account established by him to which the penalty tax imposed by proposed section 72 (p) (3) did not apply because of proposed section 72 (p)(2) (C) (the third limitation). The same property received in a payment or distribution must be contributed for the third limitation to be applicable. If, for example, a distribution to A described in proposed section 72 (p) (1) consists of 500 shares of X Corporation stock and if a stock split occurs before the shares are contributed so that A receives 1,000 shares in exchange for the 500 shares, the same 1,000 shares of X Corporation stock would be required to be contributed for the third limitation to apply. The Secretary of the Treasury or his delegate is to prescribe regulations to carry out the purposes of proposed section 72 (p) (2).

Paragraph (3) of proposed section 72 (p) provides that if an individual is required to include in his gross income for any taxable year an amount to which proposed section 72 (p) applies, there is to be imposed an additional tax for such taxable year equal to 30 percent of such amount.

The only credits by which the tax imposed by proposed section 72 (p) (3) may be reduced are the credits allowed by section 31 of the code (relating to tax withheld on wages), section 39 of the code (relating to certain uses of gasoline and lubricating oil) and section 42 of the code (relating to overpayments of tax). In addition, such tax is not to be treated as a tax imposed by chapter 1 of the code (relating to normal taxes and surtaxes) for purposes of section 56 of the code (relating to imposition of minimum tax for tax preferences).

(d) Excise tax on excessive accumulations.--Section 3 (d) of the bill would amend subtitle D of the code (relating to miscellaneous excise taxes) by adding a new chapter 43, containing section 4960. Section 4960 would impose an excise tax on the privilege of maintaining an individual retirement account in which excessive amounts are accumulated.

Proposed section 4960

Proposed section 4960 would provide that there is imposed for each taxable year on the assets of a qualified individual retirement account described in section 408 (a) of the code (as proposed to be added by sec. 3 (b) of the bill) which is exempt from tax under section 501 (a) of the code 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 account's taxable year as the minimum amount required to be distributed during such year under section 408 (a) (5) or (6) of the code (as proposed to be added by section 3 (b) of the bill), 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 proposed section 4960 is to 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 proposed section 4960, the minimum amount required to be distributed during a year under proposed section 408 (a) (5) or (6) is to be determined under regulations prescribed by the Secretary of the Treasury or his delegate.

(e) <u>Conforming amendments</u>.--Section 3 (e) of the bill would make conforming amendments to section 37 (c) (1) (defining retirement income), section 62 (defining adjusted gross income), section 72 (n) (4) (B) (relating to special rule for employees without regard to section 401 (c) (1)), section 405 (d) (relating to taxability of beneficiary of qualified bond purchase plan), section 801 (g) (7) (relating to basis of assets held by life insurance company for qualified pension plan contract), section 805 (d) (1) (defining pension plan reserves of life insurance company), section 1302 (a) (2) (A) (defining averagable income), and section 1348 (b) (1) (defining earned income).

(f) Clerical amendments.--Section 3 (f) of the bill would make clerical amendments to the table of sections for part VII of subchapter B of chapter 1 of the code, to the table of sections for part I of subchapter D of chapter 1 of the code, and to the table of chapters for subtitle D of the code.

(g) Effective date.--Section 3 (g) of the bill provides that the amendments made by section 3 of the bill are to apply to taxable years ending after the date of enactment of the bill.

65

Section 4. Contributions on Behalf of Self-Employed Individuals and Shareholders-Employees of Electing Small Business Corporations.

(a) Contributions on behalf of self-employed individuals.--(1) Special limitations for self-employed individuals.--Section 4 (a) (1) of the bill would amend section 404 (e) of the code (relating to special limitations for self-employed individuals) by revising paragraphs (1) and (2) (A) thereof.

Section 404 (e) (1) of the code provides that, in the case of a qualified pension, annuity, or profit-sharing plan which provides contributions or benefits for employees some or all of whom are employees within the meaning of section 401 (c) (1) of the code (i.e., self-employed individuals), the amounts deductible under section 404 (a) of the code in any taxable year with respect to contributions on behalf of any such employee shall, subject to the provisions of section 404 (e) (2) of the code (relating to limitation where contributions are made under more than one plan), not exceed $2,500, or 10 percent of the earned income (as defined in section 401 (c) (2) of the code) derived by him from the trade or business with respect to which the plan is established, whichever is the lesser.

Section 404 (e) (2) (A) of the code provides an overall limitation on the amounts deductible with respect to contributions under two or more plans on behalf of an individual who is an employee within the meaning of section 401 (c) (1) of the code with respect to such plans. In such a case, the amounts deductible may not exceed $2,500, or 10 percent of the earned income derived by such individual from the trades or businesses with respect to which the plans are established, whichever is the lesser.

Section 4 (a) (1) of the bill would revise section 404 (e) by increasing the limitations from $2,500 or 10 percent of earned income to $7,500 or 15 percent of earned income.

(2) Excess contributions on behalf of owner-employees.-- Section 4 (a) (2) of the bill would amend section 401 (e) of the code (relating to excess contributions on behalf of owner-employees) to conform to section 404 (e) of the code as proposed to be amended by section 4 (a) (1) of the bill. Subparagraphs (A) and (B) of section 4 (a) (2) would increase the limitations under section 401 (e) (1) (B) on the amount that an owner-employee may contribute as an employee (i.e., on a nondeductible basis). Subparagraph (C) of section 4 (a) (2) would increase the limitation under section 401 (e) (3) on the total amount which may be contributed to two or more plans requiring premiums for certain contracts without regard to the general limitations provided by section 401 (e) (1).

66

Contributions made as an employee--section 401 (e) (1) (B) (iii) and (iv)

Section 401 (e) (1) (B) (iii) of the code provides that the term "excess contribution" includes, with respect to a plan under which contributions are made on behalf of employees other than owner-employees, the amount of any contribution made by an owner-employee (as an employee) which exceeds the lesser of $2,500 or 10 percent of the earned income for the taxable year derived by such owner-employee from the trade or business with respect to which the plan is established. Section 401 (e) (1) (B) (iv) of the code provides that the term "excess contribution" includes, in the case of an individual on whose behalf contributions are made as an owner-employee under more than one plan under which contributions are made on behalf of employees other than owner-employees, the amount of any contribution, made by such owner-employee (as an employee) under all such plans, which exceeds $2,500.

Section 4 (a) (2) (A) of the bill would amend section 401 (e) (1) (B) (iii) to increase the limitation on contributions made by an owner-employee (as an employee) to the lesser of $7,500 or 10 percent of earned income. Section 4 (a) (2) (B) of the bill would amend section 401 (e) (1) (B) (iv) to increase the limitation on contributions made by an owner-employee (as an employee) to more than one plan to $7,500.

Insured plans--section 401 (e) (3)

Section 401 (e) (3) of the code provides that a contribution on behalf of an owner-employee is not to be considered an excess contribution within the meaning of section 404 (e) (1) of the code if (1) under the plan such contribution is required to be applied to pay premiums or other consideration for one or more annuity, endowment, or life insurance contracts on the life of such owner-employee, (2) the amount of such contribution exceeds the amount deductible under section 404 with respect to contributions made by the employer on behalf of such owner-employee, and (3) the amount of such contribution does not exceed the average of the amounts which were deductible under section 404 of the code with respect to contributions made by the employer on behalf of such owner-employee under the plan for the first 3 taxable years preceding the year in which the last such contract was issued and in which such owner-employee derived earned income from the trade or business with respect to which the plan is established or for so many of such taxable years as such owner-employee was engaged in such trade or business and derived earned income.

This exception does not apply in the case of an individual on whose behalf contributions (required to be applied to pay premiums or other consideration for

67

one or more annuity, endowment, or life insurance contracts on the life of such owner-employee) are made under more than one plan as an owner-employee if the amount of all such contributions exceeds $2,500. Section 4 (a) (2) (C) would amend the second sentence of section 401 (e) (3) to increase this limitation to $7,500.

(3) Penalties applicable to certain amounts received by owner-employees.--Section 4 (a) (3) of the bill would amend section 72 (m) (5) (B) (i) of the code to increase from $2,500 to $7,500 the amounts described in section 72 (m) (5) (A) of the code which must be received in any year before the penalty imposed by section 72 (m) (5) (B) of the code would apply.

Under present law, amounts described in section 72 (m) (5) (A) of the code are subject to the penalty imposed by section 72 (m) (5) (B) if such amounts are $2,500 or more and are subject to the penalty imposed by section 72 (m) (5) (C) if such amounts are under $2,500. The amounts described in section 72 (m) (5) (A) of the code consist, generally, of amounts received by an individual who is or has been an owner-employee before he attains the age of 59-1/2 (for any reason other than his becoming disabled), the amounts received by an owner-employee or by his successor in excess of the benefits provided for him under the plan formula, the amounts received by reason of a willfully made excess contribution. Under this proposal, if such amounts are $7,500 or more, the penalty provided by section 72 (m) (5) (B) would apply, and if they do not equal or exceed $7,500, the penalty imposed by section 72 (m) (5) (C) of the code would apply.

(b) <u>Contributions on behalf of shareholder-employees of electing small business corporations</u>.--Section 4 (b) of the bill would amend section 1379 (b) (1) of the code (relating to taxability of shareholder-employee beneficiaries of qualified pension, etc., plans) to increase the

68

amount of the contributions paid by an electing small business corporation on behalf of a shareholder-employee (an employee or officer who owns (or is considered as owning within the meaning of section 318 (a) (1) of the code) more than 5 percent of the outstanding stock of the corporation) which may be excluded from his gross income. Section 1379 (b) (1) provides that the excess of such contributions for any taxable year of the corporation over the lesser of (i) 10 percent of the compensation received or accrued by the shareholder-employee from such corporation during its taxable year or (ii) $2,500, must be included in his gross income for his taxable year in which or with which the taxable year of the corporation ends. Section 4 (b) of the bill would increase the amount which may be excluded by a shareholder-employee to the lesser of 15 percent of compensation or $7,500.

(c) Effective date. Section 4 (c) of the bill provides that the amendments proposed to be made by section 4 of the bill are to apply with respect to taxable years beginning after December 31, 1972.

Section 5. Limitation on Application of Section 402 (a) and 403 (a) in the Case of Certain Contributions.

(a) Amendment of section 402.--Section 402 (a) of the code provides that, in general, distributions from any employees' trust described in section 401 (a) which is exempt from tax under section 501 (a) are taxable under section 72 (relating to annuities). Section 402 (a) (2), however, provides for capital gains treatment for certain lump-sum distributions. In the case of a lump-sum distribution paid after December 31, 1969, section 402 (a) (5) limits the amount of such distribution that is subject to capital gains treatment.

Section 5 (a) of the bill would amend section 402 (a) of the code (relating to the taxability of a beneficiary of an exempt trust) by adding new paragraphs (6) and (7) which would limit the application of section 402 (a). Section 5 (a) of the bill also would make a conforming change to section 402 (a) (1) of the code to reflect proposed sections 402 (a) (6) and (7). Under proposed sections 402 (a) (6) and (7), a total distribution received from a trust forming a part of a qualified pension, etc., plan may be excluded from gross income if it is contributed by an employee within a specified period to a qualified individual retirement account, another qualified trust or a qualified annuity plan. These provisions would, therefore,

69

allow a tax-free reinvestment, or "roll-over", of a distribution. Taxation of amounts "rolled-over" would generally be deferred until the time such amounts are distributed by the individual retirement account, trust, or plan to which they were paid.

Proposed section 402 (a) (6)

Proposed section 402 (a) (6) would limit the application of section 402 (a) by providing that 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 one taxable year of the employee on account of his separation from the service other than by reason of his death, such distribution is not to be includible in gross income in such taxable year if, not later than the 60th day after the close of the taxable year, he contributes the entire amount otherwise includible in his gross income to one or more qualified individual retirement accounts described in section 408 (a). Proposed section 402 (a) (6) is not to apply unless the same property received in the total distribution is contributed to the individual retirement account. The Secretary of the Treasury or his delegate would be authorized to prescribe regulations to carry out the purposes of paragraph (6).

Proposed section 402 (a) (7)

Proposed section 402 (a) (7) (A) would limit the application of section 402 (a) by providing that 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 one taxable year of the employee on account of his separation from the service other than by reason of his death, such distribution is not to be includible in gross income in such taxable year if, not later than the 60th day after the close of such taxable year, he contributes the entire amount otherwise includible in his gross income to another employees' trust described in section 401 (a), which is exempt from tax under section 501 (a), or contributes such amount for the purchase of retirement annuities under an annuity plan which meets the requirements of section 404 (a) (2). If less than the entire amount is contributed, section 402 (a) (7) (A) will not apply and the entire amount (including both the portion retained and the portion contributed) will be includible in gross income.

Proposed section 402 (a) (7) (B) provides that proposed subparagraph (7) (A) is not to apply to a distribution paid to any distributee to the extent such distribution is attributable to contributions made by or on behalf of a self-employed person. Thus, a self-employed individual could not "roll-over" a lump-sum distribution from an H.R. 10 plan to another H.R. 10 plan or to a corporate plan. Proposed section 402 (a) (7) (B) also provides that proposed paragraph (7) is not to apply unless the same property received in the total distribution is contributed to the qualified plan. It is anticipated that regulations under proposed section 402 (a) (7) (B) would provide rules for determining how much property must be contributed where a distribution of property is made and less than the entire amount of the distribution is includible in gross income.

Proposed section 402 (a) (7) (C) provides that a contribution made pursuant to proposed section 402 (a) (7) (A) is generally to be treated as an employer contribution made on the date contributed. Thus, to the extent of a contribution made pursuant to proposed section 402 (a) (7) (A), a later lump-sum distribution under the qualified plan to which such contribution was made would not be eligible for capital gains treatment under section 402 (a) (2) because it would be treated as an employer contribution for purposes of section 402 (a) (5) (relating to limitation on capital gains treatment). Furthermore, in the case of an employee-contributory plan, this treatment would affect the computation of the estate tax exclusion under section 2039 (c) and the gift tax exclusion under section 2517 (b).

In addition, the recipient plan would not be required to maintain records as to contributions made by employers to the previous plan.

Proposed section 402 (a) (7) (C) also provides that a contribution made pursuant to proposed section 402 (a) (7) (A) is to be treated as an employee contribution under certain code sections. Thus, the employer's limit on deductible contributions either to a qualified individual retirement account or to a qualified plan is not to be thereby reduced under section 219 (b) (2), as proposed to be added by section 3 (a) of the bill. Further, under section 401 (a) (12), as proposed to be added by section 2 (a) (2) of the bill, the employee's rights in his accrued benefit derived from the amount contributed by him pursuant to proposed section 402 (a) (7) (A) are to be nonforfeitable (except in the case of death if so provided by the plan). Also, with respect to a contribution made pursuant to proposed section 402 (a) (7) (A), no amount would be deductible under section 404 of the code nor includible in gross income under either section 409 (a), as proposed to be added by section 7 (i) of the bill (relating to inclusion of certain employer contributions in gross income) or section 1379 (b) of the code (relating to inclusion in gross income of excess contributions made on behalf of a shareholder-employee of an electing small business corporation).

Proposed section 402 (a) (7) (D) would provide authority for the Secretary or his delegate to issue regulations to carry out the purposes of paragraph (7).

(b) Amendment of section 403.--Section 5 (b) of the bill would make amendments to section 403 (a) of the code (relating to taxability of a beneficiary under a qualified annuity plan) which correspond to the amendments which would be made by section 5 (a) of the bill to section 402 (a) of the code (relating to taxability of a beneficiary of an exempt trust).

(c) Effective date.--Section 5 (c) of the bill provides that the amendments proposed to be made by section 5 of the bill are to apply to taxable years ending after the date of enactment of the bill.

Section 6. Prohibited Transactions.

(a) Requirements for exemption from taxation for a trust forming part of a qualified plan.--Section 503 of the code provides that a trust forming a part of a qualified pension, profit-sharing, or stock bonus plan will be denied exemption from taxation if such trust engages in certain prohibited transactions. Generally, under section 503 (b) of the code, a prohibited transaction is a transaction, between the trust and the employer who established or maintains the plan of which the trust is a part, or a related person, in which the trust (1) makes a loan without adequate security or a reasonable rate of interest, (2) pays more than a reasonable amount of compensation, (3) makes services available on a preferential basis, (4) makes a substantial purchase or property for more than an adequate consideration, (5) sells a substantial part of its property for less than an adequate consideration, or (6) engages in any other transaction which results in a substantial diversion of its assets. In the case of a qualified trust which is part of a plan providing contributions or benefits for owner-employees who control the trade or business (i.e., a sole proprietor, or partners who own more than 50 percent of the capital or income interest of a partnership) with respect to which the plan is established, certain other transactions are treated as prohibited transactions under section 503 (g) of the code. Under this provision, a transaction in which the trust makes any loan, pays any compensation, makes services available on a preferential basis, or sells any property to such owner-employees or certain related persons is also a prohibited transaction. Further, the purchase of any property from such owner-employees or persons is a prohibited transaction under section 503 (g).

In the event of the commission of a prohibited transaction, certain special tax benefits provided under the code are denied to the trust, the employer and the employee because the plan is thereafter disqualified and is no longer exempt from taxation. Thus, the trust is taxed on income earned on its assets, the employer may deduct contributions to the trust under section 404 (a) (5) of the code only in the taxable year in which an amount attributable to the contribution is includible in the gross income of employees participating in the plan and, under sections 402 (b), 403 (c), and 83 of the code, the employee is taxed on any contributions made on his behalf for his first taxable year in which his rights are not subject to a substantial risk of forfeiture. Furthermore, any distributions received by the employee will not be eligible for the special averaging treatment or capital gains treatment accorded total distributions from qualified plans. Thus, under present law, persons who gained no benefit from a prohibited transaction may suffer adverse tax consequences because of it.

Section 6 (a) of the bill, in order to eliminate adverse consequences to innocent parties, would amend section 503 of the code so that a trust forming part of a qualified plan will not be denied exemption from taxation if the trust engages in a prohibited transaction.

(b) <u>Excise taxes on prohibited transactions</u>.--Section 6 (b) of the bill would amend subtitle D of the code (relating to miscellaneous excise taxes) by adding

73

thereto a new chapter 44 and a new section 4971. Proposed section 4971 would impose an excise tax on the amount involved in a prohibited transaction. Proposed section 4971 is similar to the self-dealing tax imposed by section 4941 of the code with respect to private foundations. Thus, under the bill, sanctions would be applied only against persons participating in a prohibited transaction rather than against plan participants and others who may in fact have been injured by the prohibited transaction. The sanctions would not depend on whether or not the trust benefits self-employed individuals who are owner-employees.

<u>Proposed section 4971 (a)</u>

Proposed section 4971 (a) imposes for each year (or part thereof) in the taxable period (as defined in proposed section 4971 (e) (2)) an excise tax equal to 5 percent of the amount involved (as defined in proposed section 4971 (e) (3)) in a prohibited transaction (as defined in proposed section 4971 (d)). The tax imposed by proposed section 4971 (a) would be payable by any party in interest (as defined in proposed sec. 4971 (e) (1)) who participates in the prohibited transaction.

<u>Proposed section 4971 (b)</u>

Proposed section 4971 (b) imposes an excise tax equal to 200 percent of the amount involved in a prohibited transaction if a tax is imposed under proposed section 4971 (a) and the transaction is not corrected within the correction period (as defined in proposed sec. 4971 (e) (5)). The tax imposed by proposed section 4971 (b) would be payable by any party in interest who participated in the prohibited transaction.

Proposed section 4971 (c)

Proposed section 4971 (c) provides that, if more than one person is liable for a tax imposed by proposed section 4971 (a) or (b), with respect to any one prohibited transaction, all such persons would be jointly and severally liable for such tax.

Proposed section 4971 (d)

Proposed section 4971 (d) defines a prohibited transaction as an act which is (1) described in section 14 (b) (2) of the Welfare and Pension Plans Disclosure Act of 1958, and not excepted from the prohibitions of that provision by section 14 (c) of such Act, and which is (2) committed by a fiduciary (as defined in proposed sec. 4971 (e) (6)) for a trust described in section 401 (a) or 408 (a) which is exempt from tax under section 501 (a). Under section 14 (b) (2) of the Welfare and Pension Plans Disclosure Act of 1958, as proposed to be amended by the Employee Benefits

74

Protection Act (S. 1557, 93rd Cong.), a fiduciary would be prohibited from engaging in certain specified acts. Unless excepted, the fiduciary would generally be prohibited from (1) leasing or selling property to or from a party in interest, (2) acting adversely to the fund, its participants or beneficiaries, (3) receiving compensation from a party dealing with the fund, (4) lending money or other assets of the fund to a party in interest, (5) furnishing goods, services or facilities to a party in interest, or (6) transferring any property of the fund to, or for the use of, any party in interest.

Section 14 (c) of the Welfare and Pension Plans Disclosure Act of 1958, as proposed to be amended by the Employee Benefits Protection Act, (S. 1557, 93rd Cong.), would expressly allow a fiduciary to engage in certain transactions. Generally, these excepted transactions would permit a fiduciary (1) to receive benefits to which he is entitled as a participant or beneficiary and to receive reasonable compensation for services rendered to the fund (with certain exceptions), (2) under certain conditions, to invest in employer securities aggregating no more than 10 percent of fund assets (except that such limit would not apply in the case of a profit-sharing, stock bonus, thrift or savings plan if the plan explicitly provided for the investment in employer securities), (3) to purchase or sell securities listed on a regulated exchange from or to a party in interest, (4) to make loans to plan participants or beneficiaries if such loans are made on a non-discriminatory basis, and (5) to take action pursuant to an authorization in the trust instrument or other document governing the fund, provided such action is consistent with the provisions of section 14 (b) of the Welfare and Pension Plans Disclosure Act of 1958. Thus, the proposed definition of a prohibited transaction would be broader than the definition contained in section 503 (b) or (g) of the code. Further, with respect to qualified trusts, the proposed definition of a prohibited transaction would be uniform for purposes of the internal revenue laws administered by the Treasury Department and the proposed fiduciary standards to be administered by the Department of Labor.

Proposed section 4971 (e) (1)

Proposed section 4971 (e) (1) defines the term "party in interest" as a person described in section 3 (m) of the Welfare and Pension Plans Disclosure Act of 1958. Under section 3 (m) of such Act as proposed to be amended by the Employee Benefits Protection Act (S.1557, 93rd Cong.), a party in interest would be defined as any administrator, officer, trustee, custodian, counsel, or employee of an employee benefit plan, or a person providing benefit plan services to any such plan;

95 78

an employer any of whose employees are covered by such a plan or any person controlling, controlled by, or under common control with, such employer, or an officer, employee, or agent of such employer or person; an employee organization having members covered by the plan, or an officer, employee, or agent of such employee organization; or a relative, partner or joint venturer of any of the described persons.

Proposed section 4971 (e) (2)

Proposed section 4971 (e) (2) defines the term "taxable period" as the period beginning with the date on which the prohibited transaction occurs and ending on the earlier of the date of mailing of a notice of deficiency pursuant to section 6212 with respect to the tax to be imposed by this proposed section or the date on which correction of the prohibited transaction is completed.

Proposed section 4971 (e) (3)

Proposed section 4971 (e) (3) defines the term "amount involved" as the greater of the amount of money and the fair market value of the other property given in a prohibited transaction or the amount of money and the fair market value of the other property received in a prohibited transaction. In the case of the tax which would be imposed by proposed section 4971 (a), the fair market value of property would be determined as of the date on which the prohibited transaction occurs. In the case of the tax which would be imposed by proposed section 4971 (b), the fair market value of property would be the highest fair market value during the correction period. If no amount is involved in a prohibited transaction, no tax would be imposed under proposed section 4971 (a).

Proposed section 4971 (e) (4)

Proposed section 4971 (e) (4) defines the terms "correction" and "correct" as undoing a prohibited 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.

Proposed section 4971 (e) (5)

Proposed section 4971 (e) (5) defines the term "correction period" as the period beginning with the date on which a prohibited transaction occurs and ending 90 days after the date of mailing of a notice of deficiency with respect to the tax to be imposed under proposed section 4971 (b), extended by any period in which a deficiency cannot be assessed under section 6213 (a) and any other period which the Secretary of the Treasury or his delegate determines to be reasonable and necessary to bring about correction of the prohibited transaction.

Proposed section 4971 (e) (6)

Proposed section 4971 (e) (6) would define the term "fiduciary" as including a person described in section 3 (w) of the Welfare and Pension Plans Disclosure Act of 1958, as proposed to be amended by the Employee Benefits Protection Act (S. 1557, 93rd Cong.), or in section 7701 (a) (6) of the code. Section 3 (w) of the Welfare and Pension Plans Disclosure Act of 1958, would define "fiduciary" as meaning any person who exercises any power of control, management or disposition with respect to any moneys or other property of an employee benefit fund, or has authority or responsibility to do so.

Proposed section 4971 (f)

Proposed section 4971 (f) provides that the Secretary of the Treasury or his delegate is to prescribe such regulations as would be necessary to carry out the provisions of the proposed section.

(c) Conforming, clerical, etc., amendments.--Section 6 (c) of the bill would make a clerical amendment to the table of chapters for subtitle D of the code (relating to miscellaneous excise taxes) to reflect proposed chapter 44, and would make conforming amendments to section 6161 (relating to extension of time for paying tax), section 6201 (d) (relating to assessment authority), section 6211 (relating to definition of a deficiency), section 6212 (relating to notice of a deficiency), section 6213 (relating to restrictions applicable to deficiencies and petition to Tax Court), section 6214 (relating to determinations by Tax Court), section 6344 (relating to cross references), section 6501 (e) (3) (relating to limitations on assessment and collection), section 6503 (relating to suspension of running of period of limitations), section 6512 (relating to limitations in case of petition to Tax Court), section 6601 (d) (relating to interest on underpayment, nonpayment, or extensions of time for payment of tax), section 6653 (c) (relating to failure to pay tax), section 6659 (b) (relating to applicable rules), section 6676 (b) (relating to failure to supply identifying numbers), section 6677 (b) (relating to failure to file information returns with respect to certain foreign trusts), section 6679 (b) (relating to failure to file returns as to organization or reorganization of foreign corporations and as to acquisition of their stock) and section 7422 (g) (relating to civil actions for refunds).

(d) Effective date.--Section 6 (d) of the bill provides that the amendments proposed to be made by section 6 of the bill are to be effective on and after the day after the date of enactment of the bill.

Section 7. Miscellaneous Provisions.

(a) Penalties applicable to forfeitures received by owner-employees. Section 72 (m) (5) (A) (i) of the code currently describes amounts to which the penalty imposed by section 72 (m) (5) (B) or (C) of the code is applicable. Generally, section 72 (m) (5) applies to amounts received by an owner-employee before he attains the age of 59-1/2 years for any reason other than his becoming disabled. Section 72 (m) applies only to the extent attributable to contributions made on his behalf while he was an owner-employee. Section 7 (a) of the bill would amend section 72 (m) (5) (A) (i) by adding to the amounts described therein, premature distributions attributable to forfeitures credited to an individual's account or applied for his benefit, while he was an owner-employee. Thus, for this purpose, forfeitures would be treated in the same manner as employer contributions. Forfeitures may arise, although only from other self-employed individuals, as a result of the application of the proposed "rule of 35" vesting standard under section 401 (d) (2) (A) of the code, as proposed to be amended by section 2 (b) (1) of the bill.

(b) Coverage and nondiscrimination requirements.-- Section 401 (a) (3) of the code provides two alternative tests as to the number of employees who must be covered by a plan (other than a plan benefiting an owner-employee) if a trust forming part of the plan is to qualify under the code. Section 401 (a) (3) (A) of the code requires that the plan benefit 70 percent or more of all employees, or 80 percent or more of all eligible employees if at least 70 percent of all employees are eligible. In making this computation, certain short service, part-time and seasonal employees may be excluded. Section 401 (a) (3) (B) of the code requires that the plan benefit such employees as qualify under a classification which is not discriminatory in favor of officers, shareholders, supervisory employees, or highly compensated employees.

Section 7 (b) (1) of the bill would amend section 401 (a) (3) (A) to provide that, for purposes of satisfying the percentage coverage requirement, employees who are included in a unit of employees covered by an agreement which the Secretary of the Treasury or his delegate finds to be a collective bargaining agreement are to be excluded, unless the agreement provides that the bargaining unit employees are to be included in the plan. See section 2 (b) of the bill which would make a similar amendment with respect to plans which include self-employed individuals who are owner-employees.

Section 7 (b) (2) of the bill would amend section 401 (a) (5) to provide that, for purposes of determining whether a plan is discriminatory within the meaning of paragraph (3) (B) or (4), there are not to be taken into account any employees who are included in a unit of employees covered by a collective bargaining agreement, if such agreement does not provide that such employees are to be included in the plan.

No change is made with respect to the exclusion for short service employees (employees who have been employed not more than a minimum period, not in excess of 5 years), part-time employees (employees who customarily work not more than 20 hours in a week) or seasonal employees (employees whose customary employment is for not more than 5 months in a year). However, the 5 year minimum period under the exclusion for short service employees would become less significant when a qualified plan is required to satisfy the minimum eligibility requirements under section 401 (a) (11), as proposed to be added by section 2 (a) (2) of the bill. It would retain significance during the transitional period and, in the case of a plan, other than an H.R. 10 plan, which requires, as a condition of participation, service in excess of 3 years by an employee younger than age 30.

Proposed section 401 (a) (14), as proposed to be added by section 2 (a) (2) of the bill, provides for certain transitional periods during which the minimum eligibility requirements would not apply.

(c) <u>Plans benefiting self-employed individuals</u>.--Under present law the full and immediate vesting requirement of section 401 (d) (2) (A) of the code prevents forfeitures in a plan which provides contributions or benefits for employees some or all of whom are owner-employees. Section 2 (b) (1) of the bill would amend section 401 (d) (2) (A) to provide a "rule of 35" vesting standard. Accordingly, forfeitures may arise as a result of the operation of this proposed vesting standard.

Section 7 (c) of the bill would amend section 401 (c) of the code (relating to definitions and rules relating to self-employed individuals and owner-employees) by adding a new paragraph (6). Under proposed section 401

7969

(c) (6), a trust forming a 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 section 401 (c) (1) of the code (i.e., self-employed individuals) is to constitute a qualified trust only if, under the plan, forfeitures attributable to contributions made on behalf of an employee other than an employee within the meaning of section 401 (c) (1) (i.e., a common-law employee) 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 a self-employed individual.

Under present law, a defined benefit pension plan may cover a self-employed individual. Under such a plan, however, a separate account consisting of contributions and gains, income, losses, and expenses must be maintained for each self-employed individual to assure that forfeitures do not inure to his benefit.

Proposed section 401 (c) (6) provides that, in the case of a defined benefit pension plan, a separate account or accounts are to be maintained with respect to all participants under the plan who are not self-employed individuals (i.e., common-law employees) and another separate account or accounts are to be maintained with respect to all participants under the plan who are self-employed individuals. Thus, a separate account would not be required to be maintained with respect to each participant, provided that an aggregate account is maintained for common-law employees and a separate aggregate account is maintained for self-employed individuals covered under a plan. Consequently, although the limitations on contributions on behalf of self-employed individuals would be separately computed on the basis of each such individual's earned income covered by a plan, the benefits payable under the plan with respect to a particular self-employed individual would not be required to be determined by reference to the separately computed contributions on his behalf.

Under proposed section 401 (c) (6), if an individual who was covered under a plan as a common-law employee becomes covered under the plan as a self-employed individual, the aggregate account for common-law employees is not to be reduced and the aggregate account for self-employed individuals is not to be increased by reason of his change of status. His benefits accrued as a common-law employee, however, may be paid out of the common-law employee accounts.

(d) <u>Trustee of a trust benefiting an owner-employee.</u>-- Section 401 (d) (1) of the code provides that only a bank

80

may be the trustee of a trust benefiting an owner-employee. Section 7 (d) of the bill would amend section 401 (d) (1) of the code to provide that such a trust would be qualified only if, in addition to satisfying the other requirements for qualification, the assets thereof are held by a bank or other person who demonstrates to the satisfaction of the Secretary of the Treasury or his delegate that the manner in which he will hold such assets will be consistent with the requirements of section 401 of the code.

(e) Employee contributions of owner-employees.--Under section 401 (d) (4) (B) of the code, a plan will not qualify under section 401 of the code if it permits an owner-employee who has not attained age 59-1/2 or become disabled to make any withdrawals, including withdrawals of his nondeductible employee contributions. (See Rev. Rul. 72-98, 1972-1 Cum. Bull. 113). There is no similar restriction with respect to employees who are not owner-employees.

Section 7 (e) of the bill would eliminate this restriction on withdrawals by owner-employees by amending section 401 (d) (4) (B) to provide that the restriction on withdrawals applies only to benefits in excess of contributions made by an owner-employee as an employee. Thus, withdrawal of contributions made by an owner-employee as an employee would be allowed under the same circumstances as contributions made by any other employee. See also section 3 (c) (1) of the bill, which would repeal section 72 (m) (1) of the code relating to amounts received before the annuity starting date.

(f) Certain custodial accounts.--Section 401 (f) of the code (relating to certain custodial accounts) currently treats a custodial account as a qualified trust, and the custodian as trustee thereof, if (1) the account would, except for the fact that it is not a trust, constitute a qualified trust, (2) the custodian is a bank, (3) the investments are made solely in stock of regulated investment companies with respect to which the employee is beneficial owner, or solely in annuity, endowment, or life insurance contracts issued by an insurance company, (4) the shareholder of record of any such stock is the custodian or its nominee, and (5) any insurance contracts are held by the custodian until distributed under the plan. Section 7 (f) of the bill would amend section 401 (f) of the code to provide that, in addition to a bank, another person may be a custodian if he demonstrates to the satisfaction of the Secretary of the Treasury or his delegate that the manner in which he will have custody of the assets will be consistent with the requirements of section 401 of the code. Further, the restriction placed upon investment of the funds of the custodial account would be eliminated.

Section 401 (f) of the code would be amended so that an arrangement similar to a custodial account or similar to an annuity contract might be treated as a trust constituting a qualified trust, if otherwise qualified. It is contemplated that, in an appropriate case, a plan similar to a dividend reinvestment plan of a regulated investment company might constitute a "similar arrangement", even though no certificates are issued, provided there is an appropriate governing instrument for the plan.

(g) Excess contributions.--Section 401 (e) (1) (B) (ii) of the code provides that the amount of any contribution made by an owner-employee (as an employee) at a rate which exceeds the rate of contributions permitted to be made by employees other than owner-employees is an "excess contribution". Section 7 (g) of the bill would amend section 401 (e) (1) (B) (ii) of the code to make its provisions applicable only with respect to a plan other than a defined benefit pension plan. This amendment would facilitate the establishment of defined benefit pension plans by owner-employees because owner-employees could make non-deductible contributions (up to the lesser of $7,500 or 10 per cent of earned income) in order to finance nondiscriminatory benefits.

(h) Amendments to section 404 (a) of the code.--Generally, section 404 of the code allows a deduction for contributions of an employer to or under a qualified plan, and for compensation paid under a plan of deferred compensation.

Generally, under section 404 (a) (1) (A) and (B) of the code, deductible contributions paid to a qualified pension trust are limited to (1) 5 percent of the compensation otherwise paid or accrued during the taxable year to all employees under the plan, plus (2) the excess (if any) of the "level cost" under the plan for the taxable year over 5 percent of such compensation. Alternatively, section 404 (a) (1) (C) limits deductible contributions made to a qualified pension plan to contributions determined under a "normal cost" method. Provision is also made under section 404 (a) (1) (C) for a deduction with respect to contributions for past service. Thus, under present law, deductible contributions in excess of "level cost" or "normal cost" may be made so long as they do not exceed 5 percent of compensation.

Section 7 (h) (1) of the bill would repeal section 404 (a) (1) (A) of the code which provides the 5 percent limitation. Thus, deductible contributions under a qualified pension plan would be limited under either the "level cost" method or the "normal cost" method under section 404 (a) (1) (B) or (C), respectively.

82

Section 7 (h) (2) of the bill would amend sections 404 (a) (1) (B) and (C) of the code (relating to deductible contributions under the "level cost" method and to deductible contributions under the "normal cost" method, respectively) to conform them to the proposed repeal of section 404 (a) (1) (A) of the code.

Section 7 (h) (3) of the bill would amend section 404 (a) (1) of the code to conform that section to the proposed amendment of section 401 (a) (7) of the code by section 2 (a) (1) of the bill. Section 7 (h) (3) of the bill would add a new sentence at the end of section 404 (a) (1) to provide that the limitations under section 404 (a) (1) (B) and (C) (as proposed to be amended by sec. 7 (h) of the bill) would 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), as proposed to be added by section 2 (a) (1) of the bill.

Section 7 (h) (4) of the bill would amend section 404 (a) (6) of the code (relating to taxpayers on the accrual basis). Under section 404 (a) (6), for purposes of section 404 (a) (1) (relating to pension plans), 404 (a) (2) (relating to employees' annuities), and 404 (a) (3) (relating to stock bonus and profit-sharing plans), a taxpayer on the accrual basis is deemed to have made a payment on the last day of the year of accrual if the payment is on account of that year and is made not later than the time when the return for that year is filed. Proposed section 404 (a) (6) would eliminate the requirement of establishing an accrual and would extend this treatment to cash basis taxpayers by providing that for purposes of section 404 (a) (1), 404 (a) (2), and 404 (a) (3) of the code, a taxpayer is to be deemed to have made a payment on the last day of the preceding taxable year if the payment is on account of such preceding taxable year and is made not later than the time prescribed by law for filing the return for such preceding taxable year (including extensions thereof). This permits a cash basis taxpayer to compute the applicable limits on the maximum deductible contribution during the taxable year immediately following the year to which the contribution relates.

Section 7 (h) (5) of the bill would amend section 404 (a) (7) of the code (relating to the limit of deduction) to allow deductions with respect to amounts contributed to meet the minimum funding standard under section 401 (a) (7), as amended by section 2 (a) (1) of the bill. Section 7 (h) (5) of the bill also amends section 404 (a) (7) by reducing the amount deductible as a carryover from 30 percent to 25 percent of compensation.

(i) Inclusion of certain employer contributions in gross income.--Section 7 (i) of the bill would add a new section 409 to the code, which is similar in concept to section 1379 of the code (relating to certain qualified plans of electing small business corporations).

Proposed section 409 (a)

Proposed section 409 (a) provides that, notwithstanding the provisions of section 402 of the code (relating to taxability of beneficiaries of employees' trusts), section 403 (relating to taxation of employee annuities), or section 405 (relating to taxability of beneficiaries under qualified bond purchase plans), an individual is to include in gross income, for his taxable year in which or with which the taxable year of his employer ends, an amount equal to the excess of the amount of the contributions made on his behalf (reduced by any amount includible in gross income under sec. 1379 (b) (1) with respect to such contributions) by the employer during the taxable year of the employer (including amounts deemed to be paid during such year under sec. 404 (a) (6) of the code) to or under a money purchase pension plan (including a "target benefit" plan) which satisfies the requirements of section 401 (a), 404 (a) (2) or 405 (a), over 20 percent of such individual's compensation otherwise paid or accrued by him from such employer during the employer's taxable year, whether or not his rights in such excess contribution are forfeitable. 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 would 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.

Proposed section 409 (b)

Proposed section 409 (b) provides that any amount included in the gross income of an individual under proposed section 409 (a) would be treated as consideration for the contract contributed by the individual for purposes of section 72 of the code (relating to annuities). Accordingly, any amount included in the gross income of

84

the individual would be treated as a contribution made by him for purposes of sections 2039 (c) (relating to exemption for certain annuities) and 2517 (relating to certain annuities under qualified plans). However, such amounts would be treated as employer contributions for purposes of qualification under section 401 of the code.

Proposed section 409 (c)

Proposed section 409 (c) provides that if amounts are included in the gross income of an individual under proposed section 409 (a), and 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 proposed section 409 (a), then the individual is 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 proposed section 409 (a) over such payments.

Proposed section 409 (d)(1)

Proposed section 409 (d) (1) provides that subsection (a) would not apply for a taxable year of an employee if at all times during the employee's taxable year in which or with which the taxable year of the employer ends, under the money purchase pension plans maintained by the employer (considering all such plans as a single plan) the rate at which employer contributions are to be made with respect to employee compensation (as defined under the plan) does not exceed 20 percent. Thus, for example, if contributions are made with respect to an employee at the beginning of his taxable year at a rate which does not exceed 20 percent of his anticipated annual compensation determined under the plan, no amount would be includible in the employee's gross income under proposed section 409 (d). This result would obtain even though, because of the employee's separation from the service during the year, the contributions exceed 20 percent of the employee's actual compensation paid or accrued for the employer's taxable year ending with or within the employee's taxable year. If any employee is covered under two or more qualified money purchase pension plans maintained by an employer, the rate of employer contributions thereunder for each employee is to be determined as if the plans constituted a single plan, by computing an aggregate rate of contributions. In such a case, the 20 percent limitation provided by proposed section 409 (d) (1) is to be applied to this aggregate rate.

85

Proposed section 409 (d) (2)

Proposed section 409 (d) (2) provides that subsection (a) would not apply to contributions made to or under a money purchase pension plan on behalf of an individual who is an employee within the meaning of section 401 (c) (1) of the code (i.e., a self-employed individual) with respect to such plan. Deductible contributions made on behalf of such an individual are subject to the limitations of section 404 (e) of the code (as proposed to be amended by sec. 4 (a) (1) of the bill). As amended, the deductible limit would be the lesser of $7,500 or 15 percent of earned income. Consequently, the proposed 20 percent limitation upon excludable contributions made to or under a qualified money purchase pension plan is not made applicable to contributions made on behalf of a self-employed individual.

Proposed section 409 (e)

Proposed section 409 (e) would authorize the Secretary of the Treasury or his delegate to prescribe such forms and regulations as may be necessary to carry out the purposes of section 409, including forms on which employers may be required to furnish needful information to their employees. Such forms would be furnished to employees at such time as the Secretary of the Treasury or his delegate may by regulations prescribe. Section 6690 (as proposed to be added by sec. 7 (j) of the bill) would prescribe assessable civil penalties for an employer's failure to furnish information to his employees as required under this section

(j) Penalty for failure to furnish information.--Section 7 (j) of the bill would amend subchapter B of chapter 68 by adding a new section 6690, relating to reports by employers which would be required by section 219 (g) of the code (as proposed to be added by sec. 3 (a) of the bill) or section 409 (e) of the code (as proposed to be added by section 7 (i) of the bill).

Reports by employers--proposed section 6690

Proposed section 6690 of the code would provide an assessable penalty for failure to furnish certain information. The usual deficiency procedures prescribed by the code would not apply in respect of the assessment of such a penalty.

Civil penalty--proposed section 6690 (a)

Proposed section 6690 (a) provides that if any person, who is required by regulations prescribed under section 219 (g) of the code (relating to retirement savings, as proposed to be added by sec. 3 (a) of the bill) or section 409 (e) of the code (relating to inclusion of certain employer contributions in gross income, as proposed to be added by sec. 7 (i) of the bill) to furnish information to an employee, fails to comply with such requirement at the time prescribed by such regulations, such person is to pay a penalty of $10 for each such failure unless it is shown that such failure is due to reasonable cause.

Deficiency procedures -- proposed section 6690 (b)

Proposed section 6690 (b) provides that Subchapter B of chapter 63 (relating to deficiency procedures for income, estate, gift and certain excise taxes) is not to apply in respect of the assessment or collection of any penalty imposed by section 6690 (a).

(k) Net operating loss.--Under present law, section 172 (d) (4) (D) of the code (relating to net operating loss modifications) provides that in computing a net operating loss, no deduction is allowed to a self-employed individual to the extent that the deduction allowed under section 404 or 405 (c) of the code together with all other nonbusiness deductions exceeds nonbusiness income. Section 7 (k) of the bill would amend section

172 (d) (4) of the code by adding a new subparagraph (E) which would impose the same treatment as to the deduction allowed to individuals under section 219 of the code (as proposed to be added by sec. 3 (a) of the bill).

(l) Certain retroactive changes.--

Under present law, section 401 (b) of the code (relating to certain retroactive changes in plans) allows retroactive, remedial amendments to be adopted by a newly established plan to satisfy certain requirements of section 401 (a) of the code (relating to qualified pension, etc., plans). Specifically, these requirements are those of paragraph (3) (relating to coverage), paragraph (4) (relating to discrimination in contributions of benefits), paragraph (5) (relating to discrimination in coverage, and discrimination in contributions and benefits), and paragraph (6) (relating to coverage) of section 401 (a) of the code. Under section 401 (b), the retroactive amendments must be adopted by the fifteenth day of the third month following the close of the taxable year of the employer.

Proposed section 401 (b) of the code would permit retroactive, remedial amendments of a plan regardless of whether such failure was precipitated by establishment of a new plan or an amendment to an existing plan.

87

Proposed section 401 (b) of the code would also extend the time permitted to adopt a retroactive, remedial amendment to the time for filing of the return of the employer for the taxable year in which the plan or amendment was put into effect (including extensions thereof) or such later time as the Secretary of the Treasury or his delegate may designate.

It is anticipated that regulations would provide for extension of the period for reasonable cause, such as the filing of a bona fide request for a determination by the Secretary of the Treasury or his delegate with respect to the plan or amendment.

Section 7 (ℓ) (2) of the bill would make amendments to section 1379 (a) of the code (relating to certain qualified pension, etc.,plans) which correspond to amendments which would be made by section 7 (ℓ) (1) of the bill to section 401 (b) of the code (relating to certain retroactive changes is plans).

(m) Conforming and clerical amendments.--
A conforming amendment would be made by section 7 (m) (1) of the bill to section 62 of the code (relating to definition of adjusted gross income).

Clerical amendments would be made by section 7 (m) (2) of the bill to the table of sections for part I of subchapter D of chapter 1 of the code and to the table of sections for subchapter B of chapter 68. Section 7 (m) (2) would also redesignate section 6687 of the code (as added by section 1 (c) of Public Law 92-606 (86 Stat. 1494)), as section 6688.

(n) Effective dates.--Section 7 (n) of the bill provides that the amendments proposed to be made by section 7 of the bill (other than the amendment proposed to be made by section 7 (i) of the bill) are to be effective on and after the day after the date of enactment of the bill. The amendment proposed to be made by section 7 (i) of the bill is to apply with respect to taxable years of an employer beginning after December 31, 1973.

Proposed Technical Revisions
of S. 1631 (93rd Cong.)
As introduced April 18, 1973

58

Page 2.

1. On line 4, after "provision" insert ", the reference is to a section or other provision".

2. On line 11, after "paragraph," insert "except in the case of a plan established and maintained by the United States, a state or political subdivision thereof, or a corporation which is an instrumentality of the United States, a state or political subdivision thereof,".

3. On line 20, after "interest" insert "for such year".

Page 4.

1. On line 2, strike out "or" and insert in lieu thereof "including".

2. On line 7, strike out "greater" and insert in lieu thereof "less".

Page 5.

On line 2, strike out "or" and insert in lieu thereof "including".

Page 6.

1. On line 11, strike out "earnings during the 12" and insert in lieu thereof "average covered earnings during the 60".

2. On line 15, strike out "or" and insert in lieu thereof "including,".

Page 7.

On line 23, strike out "gains" and insert in lieu thereof "expenses, gains,".

Page 8.

1. On line 5, after "such contributions" insert "(less withdrawals)".

2. On line 6, after "employer" insert "(less withdrawals)".

Page 9.

On line 4, strike out "insert" and insert in lieu thereof "interest".

Page 11.

On line 19, after "plan" insert "year".

Page 12.

On line 25, strike out "to" and insert in lieu thereof "in".

Page 13.

1. On line 3, strike out "and".
2. Strike out line 18 and insert in lieu thereof "'(3) The plan benefits--".

Page 14.

1. On line 8, after "year" insert "and does not include any employee who is included in a unit of employees covered by an agreement which the Secretary or his delegate finds to be a collective bargaining agreement, if such agreement does not provide that such employee is to be included in the plan".

2. On line 19, after "(10)," insert "of" and after "(6), and" insert "of".

Page 15.

On line 25, strike out "and (c)" and insert in lieu thereof ", (c), and (h)".

Page 18.

1. On line 20, strike out "tion with respect" and insert in lieu thereof "tion for a taxable year with respect".

2. On line 22, after "years" insert "before the end of such year".

Page 19.

1. On line 22, strike out the quotation mark.
2. After line 22, insert the following:

"' (g) Regulations.--The Secretary or his delegate is authorized to prescribe such forms and regulations as may be necessary to carry out the purposes of this

89

section, including forms on which employers may be required to furnish needful information to employees. Such forms shall be furnished to employees at such time as the Secretary or his delegate may by regulations prescribe.

"' (h) Special Limitation for 1973.--For taxable years ending before January 1, 1974, the amount allowable as a deduction under subsection (a) shall not exceed 50 percent of the limitation determined under subsection (b).'"

Page 21.

1. On line 8, strike out "in" and insert in lieu thereof "by".
2. On line 9, strike out "trust by, or in the custody of,".
3. On line 12, strike out "or have".
4. On line 13, strike out "custody of".

Page 22.

On line 9, strike out "spouse)" and insert in lieu thereof "spouse),".

Page 23.

1. Strike out lines 1 through 4 and insert in lieu thereof the following:

"constituting a qualified individual retirement account if such arrangement would, except for the fact that it is not a trust, constitute a qualified individual retirement account under this subsection. Paragraph (6) shall not apply if distribution".

2. Strike out lines 9 through 16 and insert in lieu thereof the following:

"' (1) Excess contributions.--If all or a portion of the contributions paid by an individual during any taxable year to a qualified individual retirement account are not deductible under section 219 (other than by reason of section 219 (c)), under regulations prescribed by the Secretary or his delegate, such contributions or portion thereof shall be treated in the same manner as an excess contribution within the meaning of section 401 (e) (1), and for this purpose, section 401 (e) (2) and (3) shall apply as if such individual were an owner-employee."

Page 24.

1. On line 4, strike out "or" at the end thereof.
2. On line 5, strike out "having custody of".

Page 25.

1. Strike out lines 3 through 6.

2. On line 7, strike out "(4)" and insert in lieu thereof "(3)".

3. On line 23, after "219" insert "(other than by reason of section 219 (c))".

Page 26.

1. On line 1, after "distributed" insert "to him".

2. After line 2, insert the following:

"' (f) Special Rule.--Solely for the purpose of determining whether section 72 (p) (2) (C) applies to a contribution under subsection (a) (2) or to an amount paid or distributed under subsection (d) (2), the requirement of section 72 (p) (1) that the amount paid or distributed be received before age 59-1/2 shall not apply."

3. Strike out line 3 and insert in lieu thereof the following:

"(g) 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)."

Page 27.

On line 13, strike out "(B)" and insert in lieu thereof "(A)".

Page 29.

On line 20, strike out "13" and insert in lieu thereof "31".

Page 33.

1. Strike out lines 1 through 9.

2. On line 10, strike out "(5)" and insert in lieu thereof "(4)".

90

3. After line 25, insert the following:

"(5) Basis for assets held for qualified pension plan contracts.--Section 801 (g) (7) (relating to basis of assets held for qualified pension plan contracts) is amended by striking out 'or (D)' and inserting in lieu thereof '(D), or (E)'."

Page 34.

1. On line 19, strike out "after '72 (m)" and insert in lieu thereof "after '72 (n)".

2. Strike out lines 20 through 26.

Page 35.

Strike out lines 1 through 26.

Page 36.

1. Strike out lines 1 and 2.

2. On line 14, strike out "aply" and insert in lieu thereof "apply".

3. On line 20, strike out "Indivduals" and insert in lieu thereof "Individuals".

Page 37.

1. On line 9, strike out "or 10 percent".

2. On line 10, strike out "or 15 percent".

Page 39.

1. On line 7, strike out "within 60 days" and insert in lieu thereof "no later than the 60th day".

2. On line 8, after "him, such" insert "otherwise includible".

Page 40.

1. On line 2, strike out "within 60 days" and insert in lieu thereof "no later than the 60th day".

2. On line 3, after "such" insert "otherwise includible".

Page 41.

1. on line 23, strike out "payee" and insert in lieu thereof "employee".

2. On line 24, strike out "payee" and insert in lieu thereof "employee".

Page 42.

1. On line 3, strike out "within 60 days" and insert in lieu thereof "no later than the 60th day".

2. On line 5, after "such" insert "otherwise includible".

Page 43.

1. On line 1, strike out "within".

2. On line 2, strike out "60 days" and insert in lieu thereof "no later than the 60th day".

3. On line 3, strike out "him, such" and insert in lieu thereof "him, such otherwise includible".

Page 49.

Strike out lines 10, 11, and 12 and insert in lieu thereof the following:

"(iii) by striking out 'chapter 42 tax' in subsection (c) and inserting in lieu thereof 'chapter 42 or 44 tax'."

Page 52.

1. On line 1, after "inserting" insert "in".

2. On line 7, strike out "therof" and insert in lieu thereof "thereof".

3. On line 20, strike out "an dinserting" and insert in lieu thereof "and inserting".

Page 53.

1. Strike out lines 8 through 11 and insert in lieu thereof the following:

"(b) Amendment of Section 401 (a).--Section 401 (a) (relating to requirements for qualification) is amended--

"(1) by striking out paragraph (3) (A) and inserting in lieu thereof:".

2. On line 19, strike out "which" and insert in lieu thereof", if such agreement".

3. On line 21, after "cluded" insert "in the plan".

91

Page 54.

1. On line 3, strike out "or'." and insert in lieu thereof "or', and".

2. After line 3, insert the following:

"(2) by inserting after the second sentence of paragraph (5) the following new sentence:

"'The determination of whether a plan is discriminatory within the meaning of paragraph (3) (B) or (4) shall be made without taking into account any employees who are included in a unit of employees covered by a collective bargaining agreement, if such agreement does not provide that such employees are to be included in the plan."'

Page 55.

1. On line 17, strike out "in trust by, or in custody of," and insert in lieu thereof "by".

2. On line 20, strike out "or have custody of".

Page 56.

1. After line 4, insert the following:

"(e) Employee Contributions of Owner-Employees.--Section 401 (d) (4) (B) (relating to additional requirements for qualification of trusts and plans benefiting owner-employees) is amended by inserting 'in excess of contributions made by an owner-employee as an employee' after 'benefits'."

2. On line 5, strike out "(e)" and insert in lieu thereof "(f)".

3. On line 9, after "Accounts" insert "or Other Arrangements".

4. On line 10, after "account" insert "or an arrangement similar to a custodial account or similar to an annuity contract".

5. On line 12, after "account" insert "or arrangement".

6. On line 14, after "section;" insert "and".

7. On line 15, strike out "custodian is" and insert in lieu thereof "assets thereof are held by".

8. On line 18, strike out "have custody of" and insert in lieu thereof "hold".

9. On line 19, strike out "section; and" and insert in lieu thereof "section.".

10. Strike out lines 20 and 21.

11. On line 22, after "account" insert "or arrangement".

12. On line 24, strike out "custodian of such account" and insert in lieu thereof "person holding the assets of such account or arrangement".

Page 57.

1. On line 1, strike out "(f)" and insert in lieu thereof "(g)".

2. On line 10, strike out "(g)" and insert in lieu thereof "(h)".

Page 60.

On line 20, strike out "(h)" and insert in lieu thereof "(i)".

Page 61.

Strike out lines 12 through 16, and insert in lieu thereof the following:

"'(1) the amount of the contributions made on his behalf (reduced by any amount includible in gross income under section 1379 (b) (1) with respect to such contributions) 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 which satisfies the requirements of section 401 (a), 404 (a) (2), or 405 (a) during such taxable year of the employer, over".

Page 62.

1. On line 20, strike out the quotation mark.

92

2. After line 20, insert the following:

"' (d) Limitations.--(1) Subsection (a) shall not apply for a taxable year of an employee if, at all times during the employer's taxable year referred to in subsection (a), under the money purchase pension plans maintained by the employer (considering all such plans as a single plan) the rate at which employer contributions are to be made with respect to employee compensation does not exceed 20 percent.

"' (2) Subsection (a) shall not apply to contributions made to or under a money purchase pension plan on behalf of an individual who is an employee within the meaning of section 401 (c) (1) with respect to such plan.

"' (e) Regulations.--The Secretary or his delegate is authorized to prescribe such forms and regulations as may be necessary to carry out the purposes of this section, including forms on which employers may be required to furnish needful information to employees. Such forms shall be furnished to employees at such time as the Secretary or his delegate may by regulations prescribe.'

"(j) Penalty for Failure to Furnish Information.--Subchapter B of chapter 68 (relating to assessable penalties) is amended by inserting at the end thereof the following new section:

"'SEC. 6690. REPORTS BY EMPLOYERS.

"'(a) Civil Penalty.--If any person who is required, by regulations prescribed under section 219 (g) or 409 (e), to furnish information to an employee fails to comply with such requirement at the time prescribed by such regulations, such person shall pay a penalty of $10 for each such failure, unless it is shown that such failure is due to reasonable cause.

"'(b) Deficiency Procedures Not to Apply.--Subchapter B of chapter 63 (relating to deficiency procedures for income, estate, gift and certain excise taxes) shall not apply in respect of the assessment or collection of any penalty imposed by subsection (a).'

"(k) Net Operating Loss.--Section 172 (d) (4) (relating to net operating loss modifications) is amended by--

"(1) striking out 'and' at the end of subparagraph (C),

"(2) striking out 'such individual.' in subparagraph (D) and inserting in lieu thereof 'such individual; and', and

"(3) by adding immediately after subparagraph (D) the following new subparagraph (E):

"'(E) any deductions allowed under section 219 shall not be treated as attributable to the trade or business of an individual.'"

97

"(l) Retroactive Changes in Plan.--

"(1) Amendment of Section 401.--Section 401 (relating to qualified pension, etc., plans) is amended by striking out subsection (b) and inserting in lieu thereof:

"'(b) Certain Retroactive Changes in Plan.--A stock bonus, pension, profit-sharing, or annuity plan shall be considered as satisfying the requirements of subsection (a) for the period beginning with the date on which it was put into effect, or for the period beginning with the date on which there was put into effect any amendment which caused the plan to fail to satisfy such requirements, and ending with the time prescribed by law for filing the return of the employer for his taxable year in which such plan or amendment was put into effect (including extensions thereof) or such later time as the Secretary or his delegate may designate, if all provisions of the plan which are necessary to satisfy such requirements are in effect by the end of such period and have been made effective for all purposes for the whole of such period.'

"(2) Amendment of Section 1379.--Section 1379 (relating to certain qualified pension, etc., plans) is amended by striking out the last sentence of subsection (a) and inserting in lieu thereof:

"'A plan shall be considered as satisfying the requirement of this subsection for the period beginning with the first day of a taxable year and ending with the time prescribed by law for filing the return of the employer for such taxable year (including extensions thereof) or such later time as the Secretary or his delegate may designate, if all the provisions of the plan which are necessary to satisfy this requirement are in effect by the end of such period and have been made effective for all purposes for the whole of such period.'."

3. On line 21, strike out "(i)" and insert in lieu thereof "(m)".

Page 63.

1. Strike out lines 5, 6, and 7, and insert in lieu thereof the following:

"(2) Clerical amendments.--

"(A) The table of sections for part I of subchapter D of chapter 1 of subtitle A is amended by inserting at the end thereof the following new item:

"'Sec. 409. Inclusion of certain employer contributions in gross income.'

"(B) The table of sections for subchapter B of chapter 68 is amended--

"(i) by striking out the penultimate item and inserting in lieu thereof:

"'Sec. 6688. Assessable penalties with respect to information required to be furnished under section 7654.'

"(ii) by inserting at the end thereof the following new item:

"'Sec. 6690. Reports by employers.'

"(C) Subchapter B of chapter 68 is amended by striking out the heading of the section immediately preceding section 6689 and inserting in lieu thereof:

"'SEC. 6688. ASSESSABLE PENALTIES WITH RESPECT TO INFORMATION REQUIRED TO BE FURNISHED UNDER SECTION 7654.'".

2. On line 8, strike out "(j)" and insert in lieu thereof "(n)".

3. On line 9, strike out "(h)" and insert in lieu thereof "(i)".

4. On line 12, strike out "(h)" and insert in lieu thereof "(i)".

GPO 865--691

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

94

FOR IMMEDIATE RELEASE July 9, 1973

TREASURY ISSUES DUMPING FINDING WITH RESPECT TO SYNTHETIC METHIONINE FROM JAPAN

Assistant Secretary of the Treasury Edward L. Morgan announced today that he has issued a dumping finding with respect to synthetic methionine from Japan. This product is used as a feed additive to promote weight response and vigor in poultry. The finding will be published in the Federal Register of July 10, 1973.

On February 15, 1973, the Treasury Department determined that synthetic methionine from Japan was being sold, or likely to be sold, at less than fair value within the meaning of the Antidumping Act, 1921, as amended.

On May 14, 1973, the Tariff Commission advised the Secretary of the Treasury that an industry in the United States was being injured by reason of the importation of synthetic methionine from Japan sold, or likely to be sold, at less than fair value within the meaning of the Antidumping Act, 1921, as amended.

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

During the period of January through September 1972, imports of synthetic methionine from Japan were valued at approximately $3 million.

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Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

95

EMBARGOED FOR RELEASE UNTIL
10:00 A.M., EDT, TUESDAY, JULY 10, 1973

TESTIMONY BY THE HONORABLE WILLIAM E. SIMON
DEPUTY SECRETARY OF THE TREASURY
BEFORE THE
HOUSE COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE
TUESDAY, JULY 10, 1973, 10:00 A.M., E.D.T.

Mr. Chairman and Members of the Committee:

I am delighted to appear before you to discuss possible shortages of gasoline and other petroleum products. Today, I would like to focus on the problems of supplying crude oil and petroleum products to independent refiners and marketers throughout the United States.

The Growth of Demand for Energy

The first thing to understand is that the demand for energy has been increasing continually while supply has not. With six percent of the world's population, we are consuming 33 percent of the world's energy. Furthermore, the demand for energy in this country is growing at an annual rate of about four percent and, by 1990, our energy needs will be double those of 1970. Much of this increase in demand will be reflected in an increase in the demand for oil, which has grown, in part, because there has been a shift away

S-251

from coal to oil and, in part, because of the inability to obtain natural gas, an alternative to oil. Domestic demand for oil has increased from 15.1 million barrels a day in 1971 to 18 million this year and will increase to about 21 million in 1975 and to approximately 25 million in 1980. Oil and gas now account for about 65 percent of the world energy consumption and 77 percent of U.S. energy consumption.

The demand for gasoline in the United States has also been growing faster in the past several years than at any other time in recent history. Since 1968, gasoline demand has risen at an annual rate of about five percent. During the past two years the rate of increase has been about seven percent per year. Part of this rise in demand can be explained by growth in the population, growth in the economy, and the increasing number of cars on the road. There are close to 90 million cars in use in the United States today, a gain over last year of more than four percent.

Demand has also risen significantly because of the many power-using devices added to cars. These include automatic transmissions, air conditioning, various safety features, and the changes made in automobiles since 1970 in compliance with EPA regulations issued under the mandate of the Clean Air Act. Producers' compliance with these

96

regulations has led to substantially reduced engine efficiency. As more vehicles come on the road equipped with safety, emission control, and physical comfort devices, average mileage per gallon will decrease further. An automobile that once got 14 miles per gallon, now gets eight or nine miles.

Because new automobiles are not getting the gasoline mileage obtained by their counterparts five and ten years ago, and because we are driving more, gasoline consumption has risen. We are using 300,000 barrels per day more gasoline this year than last year.

Failure to Build Refineries

While gasoline demand has been growing at about seven percent per year, the volume of crude oil processed by refiners has risen only three percent per year. We are now extremely short of refinery capacity and, at the time of the President's energy message, which announced the new oil import program, no new refineries were under construction. Furthermore, expansion of existing refineries had ceased. Growth in the capacity of the industry had come to an end because the industry found that it was more profitable to invest abroad than in the United States. There were a number of reasons for this:

(1) Environmental restrictions have made it increasingly difficult to find acceptable sites for new

refineries in this country. Because of resistance to refinery siting, it may take three years to obtain site approvals today, in addition to the three years required for construction. Yet, modern refineries can be designed so that they do not significantly pollute the environment.

(2) U.S. oil import restrictions, in the past, created uncertainty as to whether new domestic refineries could obtain sufficient imported supplies of crude oil. As long as the government set import quotas on a year-to-year and, in some cases, on a month-to-month basis, no company was assured of the stability of supply necessary to encourage domestic refinery construction. This impediment ended on April 18 when we terminated volumetric quotas on oil imports.

(3) The tax and other economic benefits available to refiners in the Caribbean and in Canada have been more lucrative than similar provisions available in the United States. Deepwater ports in the Caribbean and Canada have also permitted savings in the use of very large crude carriers.

For all these reasons, U.S. refinery construction has been standing still while U.S. demand for refinery products has been increasing. Our growing lack of refined products

97

was driven home to the public late in 1972 with shortages of distillates and other heating fuels in various parts of the country. Refineries had to increase their percentage of distillate production and, correspondingly, reduce gasoline production.

Gasoline production this year, however, is higher than it has ever been. Cumulative production for the first six months of 1973 was 69 million barrels greater than for the comparable period last year. The result has been that our stocks of gasoline, as of June 29, were only two million barrels below the comparable date a year ago. This is a marked improvement from earlier this year. On April 6, for example, gasoline stocks were 25 million below the year before.

It is also important to note that distillate fuel oil stocks are much improved. As of June 29, they totaled more than 139 million barrels as compared with 129 million barrels a year ago. However, inventories were abnormally low in 1972. In 1971, distillate fuel oil stocks were 149 million barrels as of June 29, or about seven percent above what they are now. Also, there is evidence that the stocks of the independents have declined, and this concerns us today.

One reason that there has been such a substantial increase in the demand for distillates is that air quality standards have required their use. Many utilities are mixing No. 2 fuel oil with residual oil. Some are actually switching to No. 2

fuel oil altogether in an effort to meet these standards. This is imposing an enormous strain on our productive capability and is making it difficult, especially for independent marketers of fuel oil, to obtain needed supplies of home heating oil.

The Problems of the Independent Oil Companies

With this demand-supply picture in mind, I would like to turn now to the problems faced by the independent segment of the petroleum industry. The independent refiners and marketers, especially, are confronted by related but distinct problems. The refiners face crude oil shortages; the marketers, gasoline shortages.

To understand how these problems developed, it is important to realize that, until the early 1970's, we had surplus crude oil production capacity in the United States. This enabled independent refiners to buy crude oil and build refineries to supply, among others, independent jobbers, marketers, and other wholesale customers. There was also a surplus of gasoline and other products being produced by the major oil companies. Independent marketers took advantage of this surplus and opened thousands of gasoline stations to sell gasoline purchased in the spot market. By efficient servicing of consumers, these marketers were able to sell gasoline for a few cents a gallon less than

98

the major oil companies. These independents have had a healthy influence on the petroleum industry by giving consumers a greater choice between price and service. They have made it possible for consumers to buy gasoline at lower prices.

The gasoline shortage has hit these independents hardest. In the first place, independent refineries can no longer get adequate supplies of crude oil. They used to obtain domestic crude oil by exchanging their import licenses with the major oil companies. The major companies used the import licenses to import cheaper foreign crude for their own use, while providing the independent refiners with domestic crude oil. In addition, the so-called "Sliding Scale" method of allocating import licenses under the old system gave smaller refineries more than a proportionate share of the licenses.

All this has changed during the last two years. Quoted prices of foreign crude oil are now equal to or higher than prices of American crude sold in the same markets. There is a worldwide shortage of low-sulfur or "sweet" crude. As a result, major oil companies have had no economic incentive to trade their domestic sweet crude production for imported crude obtained by means of independents' import tickets. It is estimated that only 40 percent of the U.S.

refineries are equipped to handle sour crude or to convert high-sulfur residual oil to low-sulfur residual oil. Further, because of local air quality standards, plants that are designed for refining high-sulfur crude are compelled to use low-sulfur crude. The result is that the independent refineries, particularly those in the mid-Continent, cannot get the sweet crude they need and are operating at less than full capacity.

Independent gasoline marketers are also in a difficult position. The wholesale market for gasoline has become very tight and many of the independents find it impossible to purchase gasoline wholesale. Hundreds of independent gasoline stations across the country have closed down. Those that can obtain gasoline abroad, find it available only at much higher prices. This hurts them competitively because their main selling point with the public is that they can underprice the major oil companies.

In the face of these problems, we have gone to great length to help protect the independents. Our basic objective has been to balance the need to preserve the independent segment of the petroleum industry with the desire to create a vigorous domestic industry through incentives for construction of new refineries in the United States and for exploration for new reserves of crude oil. As such, we have taken the following steps to help strengthen the short-term position of the independent refiners and marketers, enabling them to establish themselves on a more enduring basis.

99

1. Under the new Mandatory Oil Import Program, we honored outstanding import licenses free of license fee. Because the independents hold a large share of these licenses, this provides some value to their tickets where none existed previously. The independents will be able to import oil at lower cost than the majors. As a result, the independents should now have an improved competitive position in world markets.

2. To provide greater value to the independents' tickets, we suspended existing tariffs. Had we not done this, the independents' ticket value would have been lower. The only other way to create value under the new program was to have the consumer pay substantially higher prices.

3. In the past, the Oil Import Appeals Board (OIAB) would not distribute import licenses in cases of hardship until September of each year. These licenses were, by and large, distributed to the independent refiners and marketers. Early this year, the OIAB began to allocate tickets immediately upon application. It had soon disbursed its entire 1973 allocation. Then, on March 23, 1973, the President issued a Proclamation granting unlimited allocations to the Oil Import Appeals Board in an effort to make more crude oil and product available to both the independents and the Nation. Finally, on April 18, in another Proclamation, the President removed volumetric controls altogether.

The OIAB has now been granted unlimited ability to authorize fee-exempt import licenses, and has been given the specific responsibility of helping the independent refiners and marketers through the period of transition in which they now find themselves. 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 by the government or their willingness to supply established independent marketers and refiners with the same proportion of crude oil or products supplied in 1972.

4. The government has also been allocating its "royalty oil" to independent refineries in need. Under the terms of relatively recent lease sales, the government can collect some of its royalties in cash or in a share of the oil produced on leased lands. In choosing the latter course, it is, in effect, diverting crude oil from the major to the independent refineries.

The Interior Department estimates that the amount of royalty oil accruing from all federal lands is about 225,000 barrels a day. The Secretary of the Interior has decided to take as much of that royalty oil as possible in kind and to distribute it to independent refiners. Although the independent refiners are a small segment of the industry, their contribution is significant and the additional supplies of royalty oil are important to their survival.

The Voluntary Allocation Program

Despite these actions, however, we realized that immediate measures had to be taken to assure adequate supplies of crude oil and refined products to independent refiners and marketers. The Congress enacted the Economic Stabilization Act with a provision granting the authority to allocate petroleum and petroleum products. In order to exercise this authority and adopt a mandatory allocation program, however, public hearings had to be held. We felt that the American people could not wait that long. Therefore, we acted immediately and adopted the voluntary allocation program. This program relies on voluntary compliance with guidelines set by the Government. Our purpose was to apportion, as evenly as possible, any curtailment of consumption that resulted from shortages of gasoline and distillate. We adopted priorities for farming, food processing, other essential industries, health and emergency services, and state and local governments.

Compliance

We have found a widespread willingness on the part of the industry to participate in some form of allocation program. There are many companies who are genuinely trying to cooperate, although particular features of the program pose difficulties and, for this reason, different allocation schemes have been adopted. One measure of the degree of compliance by the industry is provided by a recent survey conducted by the National Federation of Independent Business. Of the 2,471 gasoline retailers replying, 2,091 indicated that their suppliers had complied with the guidelines.

However, the program is confronted with some legal and supply difficulties. Some companies report that they cannot fully comply with the guidelines because prior contractual arrangements legally commit them to provide fixed amounts of crude or product to certain customers. Others simply do not have enough crude or products to meet the base period requirements.

Speed and Effectiveness of Assistance

The administration of the program is moving forward. Since it was announced on May 10, 1973, we have expanded the program's staff to 77. In addition, several agencies of the government have been most helpful in responding to our needs, but their work loads limit the amount of assistance they can provide. We still have considerable staffing, space, and computer problems to resolve. However, we feel that these problems can be remedied in the very near future by further augmentation of our staff and by revising the allocation program's guidelines in ways that would limit the amount of workload.

101

Preparations For Mandatory Program And Options Being Considered

At the same time that we put this voluntary program into place, we also began to prepare for a mandatory fuel allocation program to be adopted if necessary. The measures we have taken to this end include the publication in the Federal Register on May 21, a notice of public hearings regarding allocation of crude oil and refinery products and the holding of hearings so that the public has an opportunity to express itself on how the program is working and modifications that must be made in it.

Much has been learned from the administration of the program and from comments by the companies involved. On June 11-14, 1973, we held public hearings to evaluate the operation of the program.

We received oral or written testimony from over 100 witnesses, representing a broad cross-section of industry, state and local government and consumer interests, as well as U.S. Senators and Representatives. We asked them to address themselves to two basic issues:

First, based on the experience of the past weeks, how can the voluntary program be improved and made more workable.

Second, do we need a mandatory program; and if so, how should it be structured.

In general, we learned from these hearings that the voluntary allocation program was working well in some instances and working only partially in others. In some cases it was not working at all. Criticism ranged from insufficient voluntary compliance, to reports of businesses actually closing their doors because of no available supplies of gasoline or fuel oil. In some cases, even priority consumers were still being denied supplies.

We learned that the voluntary program was working much better for refined products than for crude oil. Perhaps most important, we learned that we do need an improved allocation program, possibly with some mandatory features, in order to supply equitably the fuel needs of all segments of the industry. Interestingly, many major oil companies spoke out in favor of a mandatory program, in order to invoke force majeure clauses in their existing contracts, while some independents preferred to retain the existing voluntary program.

Many witnesses noted the need to have greater flexibility built into the program. Many wanted a more current base period, while some wanted the government to allow companies to develop their own base periods and allocation programs subject to government approval. Several stressed that consideration should be given to persons who had supply contracts or were established customers. Others stressed that special consideration be given to persons who

101X

did not have contracts and were spot buyers. Many industry representatives and state and local officials emphasized the needs of particular segments of the country or economy and urged that the priority list be expanded to include these needs. Finally, many major oil companies noted that, although many of their sales were to dealers selling under their brand name, most of these dealers were actually local independent businessmen and, as such, should be given equal consideration with other independent marketers.

In light of these reactions, we are now reviewing a number of alternative allocation programs with John Love, the newly appointed Director of the President's Energy Policy Office. These options include:

(1) Retaining a voluntary allocation program with suggested revisions;

(2) Adopting a partially mandatory-partially voluntary program; or

(3) Adopting a fully mandatory program covering all segments of the industry.

No final decision has yet been made by the Administration as to which alternative should be adopted or whether the program should be mandatory or voluntary.

In considering a possible mandatory program, there are some general objectives that we would want to pursue:

(1) It should cover crude oil, petroleum products, and liquified petroleum gases.

(2) To the extent possible, the program should be self-administering, although all covered companies must be required to participate.

(3) To the extent possible, the program should not conflict with existing business practices or contractual arrangements.

(4) Separate programs should be developed for crude oil and petroleum products and liquified petroleum gases.

In addition, most options consider priority allocations by the Office of Oil and Gas to various end users of finished products and liquified petroleum gases deemed to be essential to our Nation. Included among these priority users are independent marketers and distributors, as well as other wholesale customers, supplying priority customers unable to obtain the products they require through the regular allocation program.

Further, any mandatory program must preempt various state and local allocation programs. Also, any mandatory program should allow <u>force majeure</u> provisions in contracts to become applicable, thus terminating, where necessary, existing contractual obligations. In addition, in no case should a supplier be forced to sell crude oil or product below cost, in this way avoiding a possible legal challenge that the program is confiscatory. Finally, there should be sanctions for those companies refusing to comply with any such program as well as incentives for those companies agreeing to comply with it.

H.R. 8089

Let me now turn to H.R. 8089 which proposes an alternative mandatory allocation program.

There are several significant differences between H.R. 8089, the Independent Oil Marketers Supply Act of 1973, and our current thinking about any allocation program. First of all, we believe there is need for a comprehensive and systematic program to insure an equitable and adequate distribution of petroleum, petroleum products, and liquified petroleum gases to all segments of the industry. H.R. 8089 prohibits suppliers from unfairly discriminating against independent marketers only, but it does not provide a mechanism for insuring adequate supplies when legitimate distribution and allocation problems arise.

Second, H.R. 8089 does not provide for the allocation of crude oil among refiners. Nor does it prohibit major producers from curtailing supplies of crude oil to independent refiners. We feel it is necessary to insure that all refiners will operate at more or less the same percentage of capacity as the average refiner in a particular area of the country.

<u>Third</u>, all refiners should participate in any allocation program for refined products. The provisions of H.R. 8089 only apply to refiners whose total average refinery input exceeds 30,000 barrels per day.

<u>Fourth</u>, any allocation program should include propane, butane, jet fuel, and other distillates, which H.R. 8089 does not. We think this broader approach is needed, particularly because shortages of propane are extremely serious and pose, perhaps, the greatest threat to agriculture this coming fall.

<u>Fifth</u>, H.R. 8089 adopts a base period from October 1, 1971, through September 30, 1972. This is the period used in the voluntary program. It has caused some problems in administering the voluntary allocation program and, for this reason, we are inclined to change it.

103

Sixth, H.R. 8089 does not specifically provide for the administration and enforcement of its provisions. In order to insure compliance, there must be a way to require submitting reports and records by the companies.

Seventh, because any Administration program would be established under authority granted to the President, and through the publication of regulations, it is subject to amendment as a result of changing conditions and experience in administering the program. Congressional overview is maintained through the Economic Stabilization Act. H.R. 8089 does not provide this flexibility. There are no provisions for the promulgation of regulations to implement the intent of the bill or to provide guidance for relevant parties.

Eighth, H.R. 8089 does not contain force majeure or preemption provisions. Such provisions are necessary to create an efficiently administered program free from litigation arising from pre-existing contractual arrangements and obstruction from local regulations.

Let me emphasize that the essential difference between H.R. 8089 and any program we are considering is that the former is more limited in scope and does not provide for full allocation. We are seeking to protect independent refiners and marketers as well as to insure an adequate supply of crude oil and refined products to all priority consumers. Basically what we want is a program that will assure more equitable distribution of oil and, at the same time, will be administratively feasible.

Conclusion

Under a stronger allocation program, I believe we can distribute our limited supplies equitably and minimize inconvenience to the consumer. However, it is important to realize that no allocation program can increase supply and,in the long-run, our needs can only be satisfied by carrying out the energy policies presented by the President.

On April 18, 1973, the President presented a broad and comprehensive energy message which I see as a blueprint for action that must and will be taken. The basic goal underlying these policies is to assure adequate supplies of energy in the short run, while also reducing our dependence upon foreign supplies in the long run by fostering a vigorous domestic energy industry.

Further, last week, the President announced a $10 billion energy research and development program. This program should speed up the development of clean energy products, including synthetic oil and gas from coal, stack scrubbers which will permit us to use more coal without polluting the atmosphere, nuclear power, and research into other sources of energy such as geothermal, solar, and oil shale. This program will start to produce results in the early 1980's as these new energy sources begin to supply a significant part of our energy needs.

We have also initiated a program to triple the acreage on the outer continental shelf made available for oil and gas exploration. We have asked the Congress for authority to build the badly needed Alaska pipeline which when completed, will result in more than two million barrels of oil a day by 1980. This is equal to one-third of current oil imports. As important, approval of the Alaskan pipeline will encourage additional development of Alaskan fields. Projections indicate that the North Slope has potential reserves of as much as 80 billion barrels. Thus, eventually, we could achieve an Alaska production of between five and six million barrels a day.

Finally, the President has called on all consumers -- the Government, industry and the general public to conserve energy. We have established an Office of Energy Conservation in the Department of the Interior to spearhead this program. The Federal Government is taking the lead by an across-the-board seven percent cut-back in its energy utilization. Effective conservation measures are absolutely essential.

In short, we are undertaking long-term measures which, I think, will assure an adequate supply and because of this, equitable allocation of crude oil and products. It is in this effort that we really need the assistance of Congress.

I am basically opposed, as I am sure are most of the Members of this Committee, to the needless injection of government regulation and control into any industry, particularly where there is every evidence of intense and healthy competition. I do not want to take any step which would discourage private initiative. At the same time, we are in a situation in which we must make decisions on priorities. We cannot afford to let crops go unplanted or unharvested for lack of diesel fuel for our tractors. We cannot let our vital industries close down. We cannot endanger public health or safety. And, finally, we should not let the independent segment of the oil industry, which provides competition in the marketplace, be forced to shut down.

Thank you.

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Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

THE DEPARTMENT OF THE TREASURY 1789

103

ATTENTION: FINANCIAL EDITOR

FOR RELEASE 6:30 P.M. July 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 April 12, 1973 , and the other series to be dated July 12, 1973 , which were invited on July 3, 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 $1,700,000,000, 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 October 11, 1973		:	182-day Treasury bills maturing January 10, 1974	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	97.996	7.928%	:	95.968	7.975%
Low	97.976	8.007%	:	95.937	8.037%
Average	97.980	7.991% 1/	:	95.946	8.019% 1/

47% of the amount of 91-day bills bid for at the low price was accepted
17% 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	$ 66,690,000	$ 32,525,000	:	$ 19,905,000	$ 9,305,000
New York	3,273,940,000	2,091,740,000	:	2,565,340,000	1,387,580,000
Philadelphia	23,215,000	23,015,000	:	10,555,000	10,555,000
Cleveland	38,010,000	34,315,000	:	69,880,000	28,825,000
Richmond	31,505,000	23,335,000	:	22,400,000	19,150,000
Atlanta	25,505,000	24,655,000	:	26,320,000	21,500,000
Chicago	197,670,000	103,235,000	:	190,800,000	82,340,000
St. Louis	68,045,000	34,210,000	:	79,140,000	24,065,000
Minneapolis	14,140,000	11,660,000	:	5,665,000	5,665,000
Kansas City	40,300,000	31,365,000	:	44,020,000	28,910,000
Dallas	43,080,000	20,555,000	:	39,065,000	16,565,000
San Francisco	152,380,000	69,505,000	:	141,135,000	66,125,000
TOTALS	$3,974,480,000	$2,500,115,000 a/		$3,214,225,000	$1,700,585,000 b/

a/ Includes $355,260,000 noncompetitive tenders accepted at the average price of 97.980
b/ Includes $258,345,000 noncompetitive tenders accepted at the average price of 95.946
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 8.27% for the 91-day bills, and 8.47% for the 182-day bills.

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

104

FOR IMMEDIATE RELEASE

July 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 July 19, 1973, in the amount of $4,304,315,000 as follows:

91-day bills (to maturity date) to be issued July 19, 1973, in the amount of $2,500,000,000, or thereabouts, representing an additional amount of bills dated April 19, 1973, and to mature October 18, 1973 (CUSIP No. 912793 RZ1), originally issued in the amount of $1,800,340,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,700,000,000, or thereabouts, to be dated July 19, 1973, and to mature January 17, 1974 (CUSIP No. 912793 SU1).

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

107

7-11-73

Memo to the Press

Secretary of the Treasury, George P. Shultz announced today he was cancelling his projected trip to Tokyo on Friday.

The Secretary's decision was necessitated by his preoccupation with assisting the President in shaping Phase IV of the Economic Stabilization Program.

Secretary Shultz will be represented in meetings with the Japanese Cabinet next week by Paul A. Volcker, Under Secretary for Monetary Affairs.

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

108

FOR IMMEDIATE RELEASE July 16, 1973

TREASURY ANNOUNCES TENTATIVE NEGATIVE DETERMINATION ON POLYPROPYLENE STRAPPING FROM JAPAN

Assistant Secretary of the Treasury Edward L. Morgan announced today a tentative determination that polypropylene strapping from Japan is not being, nor is likely to be, sold at less than fair value within the meaning of the Antidumping Act of 1921, as amended. This product is a non-metallic plastic industrial strapping which is a substitute for steel or rope as a banding or strapping material.

Notice of this determination will be published in the Federal Register of July 17, 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 the year beginning June 1, 1972, imports of polypropylene strapping from Japan were valued at roughly $515,000.

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109

THE SECRETARY OF THE TREASURY
WASHINGTON

JUL 16 1973

Dear Mr. President:

There is transmitted herewith a draft bill, "To amend the Tariff Act of 1930 to grant additional arrest authority to officers of the Customs Service."

Under existing law, a Customs officer may make arrests without warrant for violations of the narcotic drug or marihuana laws under section 7607 of the Internal Revenue Code and for violations of the Customs or navigation laws or any law respecting the revenue under section 581 of the Tariff Act of 1930, as amended, where the violation is committed in his presence or where he has reason to believe that the person to be arrested has committed or is committing such violation.

Customs officers are now engaged in Federal enforcement programs not heretofore within the sphere of Customs activity and such limited authority has proved to be clearly inadequate. For example, Customs officers in the cargo security program frequently observe violations of non-Customs laws, such as thefts from interstate shipments (18 U.S.C. 659). Fugitive felons and persons in possession of stolen property have been detected entering the United States by Customs inspectors, who now have access to the National Crime Information Center. In both of these examples, Customs officers must call upon other law enforcement officers to make the arrest. In remote border areas and late at night such law enforcement officers may be unavailable. In addition, Customs officers engaged in protecting Federal property and employees, and those in the Federal air security program have had to be sworn in as deputy United States marshals to enable them to carry out their duties. This procedure has proved to be inefficient, cumbersome and inadequate. Moreover, this limited arrest authority is inconsistent with the arrest authority granted to other enforcement personnel of the Treasury Department, specifically, Internal Revenue Service enforcement officers and Secret Service agents. The Department of Justice, under whose law Customs officers have been designated United States marshals, has requested this Department to seek expanded arrest authority for Customs officers to obviate the problem.

The proposed bill would grant such additional arrest authority to officers of the Customs as defined in section 401(i) of the Tariff Act of 1930, as amended (19 U.S.C. 1401(i)). Section 7607 of Internal Revenue Code of 1954 now (1) authorizes Customs officers to carry firearms, execute and serve search and arrest warrants, and serve subpoenas and summons; and (2) provide arrest authority for violations of narcotic drug or marihuana laws. Proposed new section 589 of the Tariff Act of 1930 would incorporate the authority described in (1) above under the Customs provisions and, in addition, would authorize an officer in the performance of his duties as an officer of the Customs Service to make arrests without warrant for any offense against the United States committed in his presence, or for any felony cognizable under the laws of the United States if he has reasonable grounds to believe that the person to be arrested has committed, or is committing, such felony. The proposed bill would make the retention of the authority in section 7607 of the Internal Revenue Code unnecessary and it would be repealed.

Such expanded authority parallels the authority now possessed by internal revenue agents under section 7608 of the Internal Revenue Code. It is intended to be used by a Customs officer only in performance of his duties as a Customs officer and would not extend the arrest authority to such officer when acting as a private citizen.

It will be appreciated if you will lay the enclosed draft bill before the Senate. A similar proposal has been transmitted to the House of Representatives.

The Department has been advised by the Office of Management and Budget that there is no objection from the standpoint of the Administration's program to the submission of this proposed legislation to the Congress.

Sincerely yours,

George P. Shultz

George P. Shultz

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

Enclosure

110

A BILL

To amend the Tariff Act of 1930 to grant additional arrest authority to officers of the Customs Service.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Tariff Act of 1930 is amended by adding a new section 589 to read:

"Sec. 589. Additional Authority for Bureau of Customs.

An officer of the Customs, as defined in section 401(i) of this Act, as amended, may (1) carry firearms, execute and serve search warrants and arrest warrants, and serve subpoenas and summonses issued under the authority of the United States; and (2) make arrests without warrant for any offense against the United States committed in his presence, or for any felony cognizable under the laws of the United States if he has reasonable grounds to believe that the person to be arrested has committed, or is committing such a felony."

Sec. 2. Section 7607 of the Internal Revenue Code of 1954 (26 U.S.C. 7607) is repealed.

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

111

ATTENTION: FINANCIAL EDITOR

FOR RELEASE 6:30 P.M. July 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 April 19, 1973 , and the other series to be dated July 19, 1973 , which were invited on July 10, 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 $1,700,000,000, 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 October 18, 1973		:	182-day Treasury bills maturing January 17, 1974	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.003 a/	7.900%	:	95.983 b/	7.946%
Low	97.983	7.979%	:	95.940	8.031%
Average	97.986	7.967% 1/	:	95.944	8.023% 1/

a/ Excepting one tender of $25,000; b/ Excepting two tenders totaling $1,670,000
18% of the amount of 91-day bills bid for at the low price was accepted
88% 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	$ 34,315,000	$ 24,315,000	:	$ 20,375,000	$ 9,875,000
New York	3,531,485,000	2,148,125,000	:	2,764,185,000	1,369,670,000
Philadelphia	44,485,000	24,485,000	:	13,495,000	13,495,000
Cleveland	41,430,000	41,430,000	:	78,685,000	48,685,000
Richmond	25,650,000	22,660,000	:	20,125,000	18,925,000
Atlanta	23,235,000	21,405,000	:	23,965,000	21,215,000
Chicago	231,195,000	72,515,000	:	186,715,000	45,605,000
St. Louis	39,445,000	31,445,000	:	36,710,000	18,610,000
Minneapolis	16,960,000	8,910,000	:	17,950,000	7,710,000
Kansas City	50,940,000	37,600,000	:	42,060,000	31,870,000
Dallas	40,695,000	18,195,000	:	38,425,000	15,925,000
San Francisco	193,170,000	49,190,000	:	187,040,000	99,235,000
TOTALS	$4,273,005,000	$2,500,275,000 c/		$3,429,730,000	$1,700,820,000 d/

c/ Includes $ 334,285,000 noncompetitive tenders accepted at the average price of 97.986
d/ Includes $ 268,190,000 noncompetitive tenders accepted at the average price of 95.944
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 8.24% for the 91-day bills, and 8.48% for the 182-day bills.

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

12

FOR IMMEDIATE RELEASE

July 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 July 26, 1973, in the amount of $4,299,725,000 as follows:

91-day bills (to maturity date) to be issued July 26, 1973, in the amount of $2,500,000,000, or thereabouts, representing an additional amount of bills dated April 26, 1973, and to mature October 25, 1973 (CUSIP No. 912793 SA5) originally issued in the amount of $1,799,345,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,700,000,000, or thereabouts, to be dated July 26, 1973, and to mature January 24, 1974 (CUSIP No. 912793 SV9).

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, July 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

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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 July 26, 1973, in cash or other immediately available funds or in a like face amount of Treasury bills maturing July 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.

113

UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH June 30, 1973

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

DESCRIPTION	AMOUNT ISSUED 1/	AMOUNT REDEEMED 1/	AMOUNT OUTSTANDING 2/	% OUTSTANDING OF AMOUNT ISSUED
MATURED				
Series A-1935 thru D-1941	5,003	4,999	4	.08
Series F and G-1941 thru 1952	29,501	29,498	22	.07
Series J and K-1952 thru 1957	3,754	3,746	7	.19
UNMATURED				
Series E 3/ :				
1941	1,924	1,738	186	9.70
1942	8,488	7,656	832	9.80
1943	13,644	12,331	1,312	9.62
1944	15,922	14,321	1,602	10.06
1945	12,541	11,133	1,408	11.23
1946	5,718	4,923	795	13.90
1947	5,451	4,563	888	16.29
1948	5,652	4,655	997	17.64
1949	5,609	4,542	1,067	19.02
1950	4,922	3,934	988	20.07
1951	4,258	3,402	856	20.10
1952	4,462	3,543	919	20.60
1953	5,114	3,979	1,135	22.19
1954	5,214	4,004	1,210	23.21
1955	5,434	4,134	1,300	23.92
1956	5,254	3,964	1,290	24.55
1957	4,956	3,692	1,264	25.50
1958	4,851	3,519	1,332	27.46
1959	4,552	3,265	1,287	28.27
1960	4,580	3,193	1,387	30.28
1961	4,671	3,136	1,535	32.86
1962	4,545	2,967	1,577	34.70
1963	5,108	3,136	1,972	38.61
1964	4,979	3,065	1,914	38.44
1965	4,872	2,960	1,912	39.24
1966	5,246	3,056	2,190	41.75
1967	5,172	3,002	2,171	41.98
1968	4,913	2,797	2,115	43.05
1969	4,622	2,524	2,098	45.39
1970	4,838	2,327	2,511	51.90
1971	5,568	2,223	3,345	60.08
1972	6,122	1,768	4,354	71.12
1973	2,235	212	2,023	90.51
Unclassified	422	386	35	8.29
Total Series E	191,857	140,051	51,806	27.00
Series H (1952 thru May, 1959) 3/	5,485	3,975	1,510	27.53
H (June, 1959 thru 1973)	9,071	2,994	6,076	66.98
Total Series H	14,556	6,969	7,586	52.12
Total Series E and H	206,413	147,020	59,392	28.77
All Series – Total matured	38,258	38,243	33	.09
All Series – Total unmatured	206,413	147,020	59,392	28.77
All Series – Grand Total	244,671	185,263	59,425	24.29

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.

114

July 17, 1973

NOTE TO CORRESPONDENTS

Attached are Treasury proposed amendments to regulations governing surety companies doing business with the United States which appeared in the Federal Register, Monday, July 16, 1973.

115

SUMMARY

The Department of the Treasury has determined to amend its regulations governing Surety Companies Doing Business With the United States, at 31 CFR Part 223, to provide surety companies with an opportunity for a hearing to explain and justify its reasons for not settling claims made against it by Federal agencies, prior to a determination by the Secretary of the Treasury to revoke its certificate of authority to do business with the United States for failure to perform its obligations to such agencies.

116

TITLE 31 - MONEY AND FINANCE: TREASURY

CHAPTER II - FISCAL SERVICE, DEPARTMENT OF THE TREASURY

SUBCHAPTER A - BUREAU OF ACCOUNTS

PART 223 - SURETY COMPANIES DOING BUSINESS WITH THE UNITED STATES

NOTICE OF PROPOSED RULE MAKING

The Department of the Treasury is considering amending its regulations governing surety companies doing business with the United States, at 31 CFR Part 223 (also appearing as Department Circular No. 297, Revised). These amendments will provide a surety company with an opportunity for a hearing to explain and justify its reasons for not settling claims made against it by Federal agencies, prior to a determination by the Secretary of the Treasury to revoke its certificate of authority to do business with the United States for failure to perform its obligations to such agencies. The provisions concerning the revocation of a company's certificate of authority for not complying with other requirements of 6 U.S.C. 6 - 13 and these regulations are not affected by this amendment.

Accordingly, notice is hereby given pursuant to 5 U.S.C. 553 that the Secretary of the Treasury is considering amending Part 223, Subchapter A, Chapter II of Title 31 of the Code of Federal Regulations by: (1) amending the table of sections; (2) amending section 223.6; (3) retitling and renumbering section 223.17 as section 223.18; (4) renumbering section 223.18 as section 223.17 and section 223.19 as section 223.22, and (5) adding new sections 223.19, 223.20 and 223.21

117

More specifically: (1) As amended, the table of sections, sections 223.17 through 223.22, would read:

§ 223.17 Revocation.
§ 223.18 Performance of agency obligations.
§ 223.19 Informal hearing on agency complaints
§ 223.20 Final decisions.
§ 223.21 Reinstatement.
§ 223.22 Schedule of fees.

(2) As amended, section 223.6 would read:

§ 223.6 Requirements applicable to surety companies.

Every company now or hereafter authorized to do business under the act of Congress referred to in § 223.1 shall be subject to the regulations contained in this part.

(3) As renumbered and retitled, section 223.17 would read:

§ 223.18 Performance of agency obligations.

* * *

(4) As newly added, sections 223.19 through 223.21 would read:

§ 223.19 Informal hearing on agency complaints.

(a) Request for informal hearing. If a company determines that the opportunity to make known its views, as provided for under § 223.18(b), is inadequate, it may, within 20 business days of the date of the notice required by § 223.18(b), request, in writing, that the Secretary of the Treasury convene an informal hearing.

(b) Purpose. As soon as possible after a written request for an informal hearing is received, the Secretary of the Treasury shall convene an informal hearing, at such

118

time and place as he deems appropriate, for the purpose of determining whether revocation of the company's certificate of authority is justified.

(c) Notice. The company shall be advised, in writing, of the time and place of the informal hearing and shall be directed to bring all documents, records and other information as it may find necessary and relevant to substantiate its refusal to settle the claims made against it by the Federal agency making the report under § 223.18(a).

(d) Conduct of hearings. The hearing shall be conducted by a hearing officer appointed by the Secretary. The company may be represented by counsel and shall have a fair opportunity to present any relevant material and to examine the agency's evidence. Formal rules of evidence will not apply at the informal hearing.

(e) Report. Within 30 days after the informal hearing, the hearing officer shall make a written report to the Secretary setting forth his findings, the basis for his findings, and his recommendations. A copy of the report shall be sent to the company.

§ 223.20 Final decisions.

If, after review of the case file, it is the judgment of the Secretary that the complaint was unfounded, the Secretary shall dismiss the complaint by the Federal agency concerned and

119

shall so notify the company. If, however, it is the judgment of the Secretary that the company has not fulfilled its obligations to the complainant agency, he shall notify the company of the facts or conduct which indicate such failure and allow the company 20 business days from the date of such notification to demonstrate or achieve compliance. If no showing of compliance is made within the period allowed, the Secretary shall either preclude renewal of the company's certificate of authority or revoke it.

§ 223.21 Reinstatement.

If, after one year from the date of the expiration or the revocation of the certificate of authority, as the case may be, a company can show that the basis for the non-renewal or revocation has been eliminated and that it can comply with the requirements of 6 U.S.C. 6 - 13 and the regulations in this part, a new certificate of authority shall be issued without prejudice.

(5 U.S.C. 301; 6 U.S.C. 8.)

Prior to the adoption of the proposed amendments, consideration will be given to written views or arguments submitted to the Commissioner of Accounts, U.S. Department of the Treasury, Washington, D.C. 20226, and received not later than 30 days from the publication of this notice in the Federal Register. Pursuant to 31 CFR 1.4(b), 36 FR 13835, comments submitted in response to this

120

notice of proposed rule making are available to the public upon request therefor unless confidential status for the submission has been requested and approved.

(Signed) John K. Carlock

Fiscal Assistant Secretary

Dated: JUL 10 1973

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

121

FOR IMMEDIATE RELEASE July 18, 1973

TREASURY'S MONTHLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for $1,800,000,000, or thereabouts, of 336-day Treasury bills for cash and in exchange for Treasury bills maturing July 31, 1973, in the amount of $1,701,520,000. The bills of this series will be dated July 31, 1973, and will mature July 2, 1974 (CUSIP No. 912793 TU0).

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 Daylight Saving time, Tuesday, July 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.

(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 July 31, 1973 , in cash or other immediately available funds or in a like face amount of Treasury bills maturing July 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.

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WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

121

RELEASE ON RECEIPT July 18, 1973

TREASURY SECRETARY SHULTZ NAMES VALERIE LEVITAN AS NEW CHAIRMAN OF NATIONAL ORGANIZATIONS COMMITTEE FOR SAVINGS BONDS

Valerie Levitan, Executive Director, Soroptimist Federation of the Americas, Inc., Philadelphia, is newly appointed Volunteer Chairman of the National Organizations Committee for Savings Bonds by Treasury Secretary George P. Shultz, effective immediately. She succeeds Hugh H. Cranford, Executive Secretary, Optimist International, who had served as Committee Chairman since March, 1970.

The National Organizations Committee is composed of the executive heads of 50 of the nation's leading civic, service, veterans, and fraternal organizations, who work with the U. S. Savings Bonds Division to develop and sustain Bond Program interest in such organizations nationwide.

Ms. Levitan has served as the Soroptimist's Executive Director since September, 1970. She was formerly co-owner, teacher, and assistant principal of The Levitan School, Inc., an accredited two-year business school.

She is active in such civic, professional, and fraternal organizations as: Conference of UN Representatives; Women's Committee, President's Committee, Employment of the Handicapped; Right to Read Conference, National Center for Voluntary Action; White House Conference on Aging; Delaware Valley Society for Association Executives; founding President, U. of Pennsylvania and Alumnae chapters, Kappa Delta Epsilon, and Philadelphia branch, American Association of University Women.

Ms. Levitan is a resident of center-city Philadelphia. She has two children -- Daniel, 17, who is entering Temple University, and Jeanie, 15, a student at Philadelphia High School for Girls.

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WASHINGTON, D.C. 20220 TELEPHONE W04-2041

122

FOR IMMEDIATE RELEASE July 18, 1973

WITHHOLDING OF APPRAISEMENT ON IRON AND SPONGE IRON POWDERS FROM CANADA

Assistant Secretary of the Treasury Edward L. Morgan announced today a withholding of appraisement on iron and sponge iron powders (excluding alloy powders) from Canada pending a determination as to whether they are being sold at less than fair value within the meaning of the Antidumping Act of 1921, as amended. These powders are used in the powder metallurgy industry to fabricate a variety of pressure cast products such as gears, magnets, welding rods and various automotive components.

The decision will appear in the Federal Register of July 19, 1973.

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

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

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

During the period of January 1972 through March 1973, imports of iron and sponge iron powders from Canada were valued at approximately $5.7 million.

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WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

123

FOR IMMEDIATE RELEASE July 18, 1973

The Chairman of the Federal Reserve Board and the Secretary of the Treasury have jointly issued the following Statement:

"At the March 16, 1973 meeting of finance ministers and central bank governors in Paris, it was agreed that official intervention in foreign exchange markets may be useful at appropriate times to facilitate the maintenance of orderly market conditions. In view of the inherent strength of the dollar, and following consultations by the Federal Reserve, the Treasury, and representatives of other countries, intervention by the Federal Reserve in the New York exchange market began on July 10. Active intervention will take place in the future at whatever times and in whatever amounts are appropriate for maintaining orderly market conditions."

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S253

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NEWS

130

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
THURSDAY, JULY 19, 1973, AT 2:00 P.M. (EDT)

Mr. Chairman and Members of the Subcommittee:

In the year since the Subcommittee's earlier hearings on progress toward international monetary reform, important steps have been taken toward the negotiation of a reformed world trade and payments system. New measures have also been introduced for handling the immediate monetary problems which nations faced. Consequently, the formal negotiating process has been paralleled by a pragmatic, evolutionary process. I believe these processes properly should react upon each other; in the negotiating process we should be sensitive to the political and economic realities exposed by events, while our reactions to those events should be shaped with an awareness of our longer run goals for the monetary system.

S-253

The main steps taken during the past twelve months to move toward reform are, I am sure, already familiar to the Subcommittee:

-- In July of last year, agreement was reached on a forum for the reform negotiations -- the Committee of Twenty -- and the scope of their deliberations. This important procedural move gave assurance that the reform effort would be a comprehensive one, that the negotiations would be undertaken at a politically responsible level, and that the forum would be a limited but broadly representative group. The main technical work has been done by a subordinate committee of the Committee -- the so-called Deputies -- under the Chairmanship of Jeremy Morse, formerly an Executive Director of the Bank of England.

-- In September, Secretary Shultz, building in part on the expressed views of other nations, tabled a comprehensive and interlocking set of reform proposals. These proposals have since

131

been elaborated in further detail. They take as one point of departure the concept that a system of stated exchange rates -- par or central values -- supported by convertibility into an international reserve asset should be the "center of gravity" of the new exchange rate regime. However, a substantially greater degree of flexibility in exchange rate practices than characterized the Bretton Woods System would be permitted, partly through wider margins around par values and partly through permitting countries to float in some circumstances under appropriate IMF surveillance. To support this exchange rate framework, the proposals envisage more effective disciplines to encourage prompt and effective restoration of balance in international payments, partly through the use of fluctuations in levels of international reserves as an "objective indicator" of adjustment needs. I believe these proposals set forth a balanced, effective, and logically consistent system thatwould provide equitable and evenhanded treatment to all nations.

-- These American proposals have provided a focus for much of the discussion. While no equally comprehensive set of proposals has been advanced as an alternative, other countries have pressed for modifications in some features; in some instances, they have set forth more sharply different views on one aspect or another of the system. A tentative "outline" has been developed for discussion purposes, attempting to identify points of consensus as well as the differences to be reconciled.

I should also note that in two areas closely interrelated to monetary reform -- trade and investment -- new important initiatives have also been launched in the past year.

-- In May of this year, comprehensive trade legislation was submitted to the Congress,

132

to give the President necessary tools to engage in multilateral trade negotiations scheduled to begin formally in September. Other nations are also in the process of developing negotiating approaches. Consequently, prospects remain favorable that, as we reach conclusions on the monetary system, we can look forward to a reduction of trade barriers and the introduction of fair trading rules consistent with the objectives we seek in the new monetary order.

-- Earlier this month, after extensive discussion, the OECD agreed upon a wide-ranging work program, that we hope can break new ground with respect to the issues associated with international investment, complementing the review of trade and monetary rules.

I believe the Committee of Twenty is tackling the challenge of monetary reform in a workmanlike way. While frequency of meetings is no measure of progress, it is perhaps a useful yardstick of the intensity and breadth of the effort. Since September the Deputies, coming together each month or two, have met for 15 days; several technical groups have prepared papers between meetings; and the Ministers have themselves held two meetings. A third Ministerial working session is scheduled for the end of July.

I can well understand the concern and impatience for more visible evidence of concrete accomplishment in the form of a finished agreement. However, I have never felt it realistic to believe a new agreement governing our monetary relationships for a generation could be hammered out in a matter of weeks or months. The work of the past year has been, I think, an essential prerequisite for ultimate success: the debating of different concepts of reform; a technical analysis of alternative mechanisms; and a useful cross-fertilization of ideas and viewpoints. In the process, much has been learned by all the participants, and much of the underbrush cleared away, so that we can understand the fundamental points of consensus and where basic disagreements may still lie. It seems to me

133

essential, too, that both legislative and public interest be better focused on these issues, for agreements on the monetary system have important implications for the conduct of national economic policies and the relationships among nations.

As part of the clarification of views on all sides, I believe there is now better understanding of certain points that we have emphasized in presenting our own proposals. Most importantly, we have insisted that the various elements in the monetary system -- convertibility, the exchange rate regime, the adjustment process, and the supply and the nature of international reserve assets -- must be developed as part of a balanced and consistent whole. Thus, if a system of convertibility is to work effectively, we need a technique for assuring that the incentives to adjust apply not just to deficit countries losing reserves, but evenhandedly to surplus and deficit countries. The tolerance we wish to permit for temporary imbalances in the system -- and some tolerance is necessary -- must be consistent with the availability of reserves to finance imbalances. There must be a broad consistency between the amount of reserves that countries in practice wish to hold and the availability in the system of such reserves. The assets used as international reserves should not be subject to speculative distortions, and must be available for nations to use freely and flexibly.

Unless a new monetary system achieves such balance and consistency, new strains and breakdowns seem sure to arise. The necessary disciplines and pressures will bear unevenly on different countries. Instead of assuring a new stability, we will inadvertently create uncertainty and political tension.

I believe it is fair to say that the members of the C-20 in principle have already reached certain more or less unanimous conclusions. We are joined in a search for more effective mechanisms to assure more timely and effective balance of payments adjustment operating symmetrically on both surplus and deficit countries -- the lack of which contributed heavily to the breakdown of the Bretton Woods system.

134

There is a general willingness to accept the proposition that international incentives and pressures may be necessary to "discipline" the adjustment process. At the same time, most countries want to leave in the hands of individual countries as wide a range as possible of discretion as to how the adjustment is made -- while discouraging those forms of adjustment that damage the fabric of international trade and payments.

We have agreed that the exchange rate regime should be based on stable but adjustable par values, with floating rates a useful technique in particular situations. We have agreed that there should be better international management of global liquidity, that the role of gold and reserve currencies should be reduced, and that a modified SDR (perhaps renamed) should become the principle reserve asset. We have agreed that more effective means are needed to deal with problems of short-term capital flows, although a considerable amount of disagreement remains as to the appropriate role of controls in that effort.

Agreement on these points is important and a source of encouragement. I do not, however, delude myself into thinking that the area of agreement on these points, important as they are individually, is enough to ensure the over-all consistency, balance, and coherence of which I spoke. In particular, we have much ground to cover to make these principles operational, in the sense of specific and defined rules of behavior acceptable to all.

As one illustration, in concept we all want a better process of balance of payments adjustment. But in practice, that dull and abstract phrase "balance of payments adjustment" translates into difficult economic judgments and sensitive political issues for any government. Who is to decide what action will be taken, when, and by which country? In practice, we need to find workable answers to those questions, and answers satisfactory to the trading community as a whole, as well as to individual nations. We must, for instance, settle the appropriate scope for national discretion, the role of the International Monetary Fund, and the extent to which "objective indicators" can be usefully employed. In all these areas, a full consensus has not yet been reached.

/135

The target we set last September was to reach agreement on the broad outline of reform by next September's IMF meeting in Nairobi. Our objective, between now and September, remains to identify as broad an area of agreement as feasible, so that work can proceed on the operational rules to implement those principles. As this implies, Nairobi will not end the work of reform; under the most favorable of assumptions, there will be much more to be done, by way of forging the operational rules and preparing necessary legislative action.

For this reason, it is of particular importance that we have a workable interim system while we proceed with reform. In the past two years the monetary system has been subjected to sharp upheaval and unprecedented changes -- two major currency realignments, including substantial devaluations of the dollar, and more recently decisions by a number of the major industrial nations to allow their currencies jointly or individually to float.

The general arrangements under which a number of these currencies are floating were worked out at a joint meeting of the Group of Ten and the European Community last March 16.

The participating governments made clear that while they assumed no general obligation to intervene in exchange markets to maintain specified margins, official intervention in foreign exchange markets could be useful at appropriate times to facilitate the maintenance of orderly market conditions. That understanding and undertaking guides and motivates our approach toward intervention. To assure our continuing capacity to carry out such operations, reciprocal credit facilities have been enlarged.

Since March there have been sizable movements in some market exchange rates, particularly between the dollar and some European currencies. I believe, and many others believe, that the appreciation of certain currencies vis-a-vis the dollar has moved farther than warranted or needed to restore long-term international payments equilibrium, including specifically equilibrium in our own balance of payments.

In appraising the recent movements in exchange rates, I would note that the sharp moves have been confined almost entirely to the European countries participating in a joint float -- the so-called "snake." Indeed, the dollar has remained rather steady for months against the currencies of

136

countries accounting for some three-quarters of our trade. This includes our major trading partners outside Europe -- Japan, Canada, and most of the developing countries -- as well as some important European countries, for example, the U.K. and Italy.

In appraising this recent experience, I would draw several conclusions of relevance to longer term reform:

-- First, in a situation marked by large payments disequilibria built up over a long period of time, with accompanying uncertainties and speculative tendencies, attempts to maintain fixed currency relationships led to repeated strains and crises. These strains were aggravated by the fact that the disequilibria strongly affected the main currency of the system -- the dollar. In a situation of this sort, in contrast to the available alternatives, the floating of currencies has provided a broadly acceptable <u>modus operandi</u> during the period before equilibrium can be restored, and the present evidence suggests flows of trade and long-term investment have not been seriously affected.

-- Second, I believe this experience underlines the importance, in terms of achieving more stable currency relationships, of establishing equilibrium in the payments of the United States. No international monetary reform can substitute for that requirement. We can, as part of the reform process, reduce the degree to which the system has been dependent on the dollar, but we cannot escape the facts that the United States will remain the largest economic unit, and that the health of our currency is important to other countries as well as to ourselves.

-- Third, the interim arrangements now in place are not a substitute for long-term reform. They do not provide the framework of agreed and reasonably clear rules needed to meet the longer term requirements of the system. That is the task of reform.

(137)

-- Fourth, as implied by my earlier remarks, the difficulties we have encountered demonstrate the dangers of allowing payments imbalances to build up over an extended period. Although the February devaluation was almost universally regarded as adequate, the inevitable lag in its effects and the resultant period of uncertainty until those effects can show through fully, have contributed to the market disturbances which followed. This underscores the need for effective incentives for countries -- for the U.S. as well as others -- to adjust promptly to emerging disequilibria. This, again, is the task of reform.

-- Fifth, the instability of the private market for gold, with sharp gyrations in its price, has demonstrated again the unsuitability of that metal as the central reserve asset of a new system.

-- Finally, while a number of countries have increased the use of controls on short-term capital in an attempt to deal with the massive flows of mobile funds which can occur in today's world, the limitations on the effectiveness of such controls have been demonstrated once again. Such controls do not appear to be an adequate response to the problem of speculation and imbalance.

I noted earlier that the Ministers will be meeting in Washington at the end of this month. This meeting is designed to encourage a full and frank exchange of substantive views on the issues developed by their Deputies. You should not anticipate immediate resolution of the issues on the table, for the meeting is not intended to force agreement where basic issues are unresolved and differences in approach and analysis remain evident. In other words, it is a working, preparatory meeting, rather than a meeting for reaching final conclusions or for laboring over a vague communique.

We do believe it can be an important meeting, in the sense that responsible political officials need an opportunity to explore the principal problems and possibilities fully and informally together, testing their thinking, one against

138

another, before sound conclusions are possible. We also anticipate that the Ministers, on the basis of their discussion, will want to set out a work program for Nairobi and beyond.

In this manner, I believe the process of developing the needed consensus on monetary reform is proceeding. I particularly welcome this opportunity to explore the issues with you today, for no one could be more conscious than I that our efforts must rest on a broad base of legislative and public support.

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139

FOR IMMEDIATE RELEASE July 19, 1973

TREASURY ANNOUNCES REDUCED TIME FOR PROCESSING CASES AND INCREASED ANTIDUMPING DECISIONS

Assistant Secretary of the Treasury Edward L. Morgan announced today that during FY 1973 the average time for processing antidumping cases has been reduced over 50 percent from the time required in FY 1968.

The average number of days Treasury took to complete an antidumping investigation in FY 1968 was 560, with some cases taking 2 years or longer. During FY 1973 the average completion time was reduced to 270 days. Mr. Morgan credited the "concentrated effort by the Treasury to revitalize the administration of the Antidumping Act in defending American industry and labor against unfair foreign pricing practices" for achieving these improved results. "Long investigations," he pointed out, "are bad for all concerned: the domestic complainant who is seeking a speedy remedy if dumping is, in fact, taking place; and the foreign manufacturer and American importer, who wish to know as soon as possible where they stand in terms of the complaint so that they can properly price their merchandise in selling to American firms."

Mr. Morgan, in releasing statistics on the number of cases processed from FY 1967 to FY 1973, also reported that, due to a decline in the number of antidumping complaints received, 12 less cases were initiated in FY 1973 than FY 1972. However, there was a continuing increase in the number of decisions made under the Act, an increase of 6 from FY 1972, and 31 more than were made in FY 1967.

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Tables attached

AVERAGE NUMBER OF DAYS FOR PROCESSING
ANTIDUMPING CASES AT TREASURY
BY FISCAL YEAR INITIATED

Year	Days
1968	560
1969	540
1970	483
1971	364
1972	357a/
1973	270b/

a/ Includes three cases which were delayed pending resolution of a novel issue under the Antidumping Act, the treatment of below cost sales. Although final action has not been taken on these cases, a tentative action has been taken. For purposes of this table, it has been estimated, based on past experience, that final action will occur 3 months after the tentative action.

b/ Eight of the 27 cases intiated in FY 1973 had been completed at Treasury by the end of the fiscal year. Tentative action had been taken in two cases. Using the assumption in footnote a/, a good estimate was obtained for their final completion times.

ACTIONS TAKEN UNDER THE
ANTIDUMPING ACT OF 1921, AS AMENDED
Fiscal Years 1967-1973

Fiscal Year	Invest. Initiated	Total Final Actions by Treasury	Determinations of Sales at Less Than Fair Value	Determinations of No Sales at Less Than Fair Value	Final Discontinuances*	Findings of Dumping
1967	10	11	1	10	-	1
1968	15	16	6	10	-	1
1969	22	6	1	5	-	5
1970	26	24	7	17	-	6
1971	23	23	14	6	3	7
1972	39	36	23	5	8	18
1973	27	42	25	11	6	8

*Discontinuances were not issued prior to FY 1971

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141

FOR RELEASE FRIDAY, JULY 20, 1973

MAY 1973 RESIDUAL OIL PRICES MIXED

The average price of East Coast tanker, pipeline and barge quantities of residual fuel oil delivered to purchasers for resale went from $4.01 a barrel in April to $4.02 a barrel in May, according to Treasury Department Deputy Secretary William E. Simon, who also serves as Chairman of the President's Oil Policy Committee.

The average price of residual fuel oil picked up by purchasers for resale increased from $2.91 a barrel in April to $3.00 a barrel in May. This oil averaged a lower price than others because of sulfur content and other characteristics. Tanker and pipeline deliveries to East Coast electric utilities averaged $4.00 a barrel in May, an increase of 11 cents from April.

For tanker, pipeline and barge quantities, East Coast marketers paid an average of $4.13 a barrel for residual fuel oil with sulfur content of one percent maximum, a decrease of nine cents from April; $2.89 a barrel for oil with sulfur content of 1.5 percent through 2.2 percent, an increase of five cents; and $2.84 a barrel for oil with sulfur content over 2.2 percent, an 11 cent increase.

The survey is part of the surveillance under the Presidential Proclamation on oil imports. This report is limited to No. 6 residual fuel oil, both domestic and imported. Excluded are intracompany business, sales to the Department of Defense, and sales outside the U. S. These results are obtained from the summation of individual company submissions and include business on contracts of various vintages and spot transactions.

Attachment

S-252

DEPARTMENT OF THE TREASURY SURVEY OF NO. 6 RESIDUAL FUEL OIL

EAST COAST SALES [1/], REVENUE AND COSTS PER BARREL [2/], BY REGIONS [3/]

MAY 1973

PART I. SALES	All Regions (1) Delivered to Purchaser	(2) Picked up by Purchaser	Region A (3) Delivered to Purchaser	(4) Picked up by Purchaser	Region B (5) Delivered to Purchaser	(6) Picked up by Purchaser	Region C (7) Delivered to Purchaser	(8) Picked up by Purchaser	Region D (9) Delivered to Purchaser	(10) Picked up by Purchaser
A. To resellers:										
1. Tanker, pipeline or barge	$4.02	$3.00	$4.06	$NR [4/]	$4.80	$NR	$NR	$4.00	$NR	$NR
2. Truck or tank car	4.44	4.07	4.61	3.78	4.55	5.00	4.36	4.00	3.62	3.09
B. To electric utilities:										
1. Tanker or pipeline	4.00	4.60	4.56	NR	4.22	--	3.51	NR	3.35	NR
2. Barge	3.93	4.57	NR	NR	4.36	NR	3.70	4.58	3.68	NR
3. Truck or tank car	4.10	--	NR	--	--	--	--	--	4.06	--
C. To other consumers:										
1. Barge	3.80	3.17	4.67	NR	4.45	NR	3.73	2.93	2.80	3.22
2. Truck or tank car	4.42	3.44	4.60	2.86	4.85	4.50	4.19	3.50	3.43	3.00

PART II. PURCHASES BY MARKETERS Tanker, Pipeline or Barge	All Regions	Region A	Region B	Region C	Region D
Sulfur content:					
A. 1% maximum	$4.13	$4.21	$4.17	$4.11	$NR
B. Over 1% thru 1.5%	--	--	--	--	--
C. Over 1.5% thru 2.2%	2.89	NR	NR	--	NR
D. Over 2.2%	2.84	NR	NR	NR	2.87

APRIL 1973

PART I. SALES	All Regions (1) Delivered to Purchaser	All Regions (2) Picked up by Purchaser	Region A (3) Delivered to Purchaser	Region A (4) Picked up by Purchaser	Region B (5) Delivered to Purchaser	Region B (6) Picked up by Purchaser	Region C (7) Delivered to Purchaser	Region C (8) Picked up by Purchaser	Region D (9) Delivered to Purchaser	Region D (10) Picked up by Purchaser
A. To resellers:										
1. Tanker, pipeline or barge	$4.01	$2.91*	$3.89	$NR 4/	$4.41	$NR	$NR	$3.51	$NR	$NR
2. Truck or tank car	4.42	4.14	4.63	3.83	4.60	5.00	4.20	3.86	3.71	3.08
B. To electric utilities:										
1. Tanker or pipeline	3.89*	4.31	3.95	NR	4.11*	--	3.39	NR	3.55	NR
2. Barge	4.05*	4.57	NR	NR	4.44*	NR	4.00	4.54	3.78	NR
3. Truck or tank car	4.04	--	NR	--	--	--	--	--	3.99	--
C. To other consumers:										
1. Barge	3.77	3.15	4.65	NR	4.32	NR	3.70	2.84	2.80	NR
2. Truck or tank car	4.44	3.55	4.62	2.95	4.95	4.59	4.28	4.03	3.19	2.96

PART II. PURCHASES BY MARKETERS Tanker, Pipeline or Barge	All Regions	Region A	Region B	Region C	Region D
Sulfur content:					
A. 1% maximum	$4.22*	$4.18	$4.40*	$4.07	$NR
B. Over 1% thru 1.5%	--	--	--	--	--
C. Over 1.5% thru 2.2%	2.84	NR	NR	--	NR
D. Over 2.2%	2.73	NR	NR	NR	NR

* Revised

1/ Excludes intracompany transactions in which exchanges of goods and/or services are significant, sales to the Department of Defense, and sales outside the United States.

2/ Reflects all allowances and charges, including delivery charges of vendor.

3/ Regional classification by destination. Regions consist of: A, New England; B, New York and New Jersey; C, Pennsylvania, Delaware, Maryland, District of Columbia, and Virginia; and D, North Carolina, South Carolina, Georgia and Florida.

4/ NR - not released in order to avoid possible disclosure of individual company information.

WASHINGTON

July 17, 1973

143

Dear Mr. Chairman:

At the direction of the President, I hereby enclose a letter relative to testimony by the Secret Service to Congressional Committees.

Sincerely yours,

(Signed) George P. Shultz

George P. Shultz

The Honorable
Sam J. Ervin, Jr.
Chairman, Senate
Watergate Committee
United States Senate
Washington, D.C.

Enclosure

THE WHITE HOUSE

WASHINGTON

144

July 16, 1973

Dear Secretary Shultz:

I hereby direct that no officer or agent of the Secret Service shall give testimony to Congressional committees concerning matters observed or learned while performing protective functions for the President or in their duties at the White House.

This applies to the Senate Select Committee which is investigating matters relating to the Watergate break-in and the current efforts which I am informed are being made to subpoena present or former members of the White House detail of the Secret Service.

You will please communicate this information to the Director of the Secret Service promptly and either you or he should then personally notify the Chairman of the Senate Select Committee. You should further advise the Chairman that requests for information on procedures in the White House will be given prompt consideration when received by me.

Sincerely,

Richard Nixon

Honorable George P. Shultz
Secretary
Treasury Department
Washington, D.C.

Department of the TREASURY
OFFICE OF REVENUE SHARING
WASHINGTON, D.C. 20226
NEWS
Telephone 634-5163
THE DEPARTMENT OF THE TREASURY 1789

145

FOR INFORMATION, CALL (202) 634-5248

FOR RELEASE, TUESDAY, JULY 24, 1973, A.M.

Estimates of general revenue sharing payments to be made in fiscal year 1974 to more than 38,000 state and local governments were announced today by the U.S. Treasury Department's Office of Revenue Sharing. Totalling $6.055 billion, payments will be made quarterly in October, 1973 and January, April and July, 1974.

The amounts to be distributed in the fourth entitlement period were printed on Planned Use Report forms mailed to all state, county and local governments. Recipients are required by law to report their plans for use of fourth entitlement period money to the Office of Revenue Sharing by September 20, 1973. A copy of the report must be published by each recipient in a local newspaper of general circulation. The legislative history of the State and Local Fiscal Assistance Act indicates that Congress included the reporting requirement to provide citizens with information needed to participate in local decision-making about uses of shared revenues.

In announcing the entitlements to be paid over the next twelve months, Graham W. Watt, Director of the Office of Revenue Sharing, described the factors that went into the calculations of the amounts. They were the following:

---a $413 million increase in the total amount to be distributed in fiscal year 1974 over fiscal year 1973. This increase is provided in the five-year schedule of appropriations approved in 1972.

---release of funds totaling $160 million withheld in the first and second entitlement periods. One percent of first entitlement period funds and five percent of second entitlement period appropriations had been reserved by the Office of Revenue Sharing to make adjustments as data were improved and used to compute final entitlements.

---establishment of an Obligated Adjustment Reserve. One-half of one percent of appropriated funds will be set aside in each period to make individual adjustments that may be required after the close of an entitlement period.

1216

---introduction of more current data not previously available to calculate entitlement amounts. New data for taxes and intergovernmental transfers were used to calculate the estimates announced today. These data had not been available from the Bureau of Census when previous entitlement amounts had been calculated.

---changes in the numbers of eligible jurisdictions. Newly - incorporated, merged and disincorporated governments have changed the total number of units of governments eligible to receive shared revenues. A few jurisdictions have waived participation in the program.

Secretary of the Treasury, George P. Shultz, appointed Graham W. Watt as Director of the Office of Revenue Sharing shortly after President Nixon signed the State and Local Fiscal Assistance Act, in the fall of 1972. Since the inception of the program, the Office of Revenue Sharing has distributed $8.121 billion of the total $30.2 billion appropriated for five years.

oOo

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

MEMO TO CORRESPONDENTS: July 19, 1973

Attached is a notice that appeared in the Federal Register of Thursday, July 19, 1973. It deals with Treasury's handling of national security information.

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148

Title 31—Money and Finance: Treasury

SUBTITLE A—OFFICE OF THE SECRETARY OF THE TREASURY

PART 2—CLASSIFICATION, DOWNGRADING, DECLASSIFICATION AND SAFEGUARDING OF NATIONAL SECURITY INFORMATION AND MATERIAL

This document puts into the form of regulations the Department of the Treasury procedures for the classification, downgrading, declassification and safeguarding of national security information and material, required under Executive Order 11652, 37 FR 5209, and the National Security Council Directive of May 17, 1972, 37 FR 10053. These regulations incorporate and revise the procedures on this subject embodied in Treasury Department Order No. 160, Revised,, of August 3, 1972, 37 FR 20990. That Treasury Department order is superseded by these regulations as of their effective date, July 1, 1973. A new Treasury Department Order No. 160, Revised, is being issued contemporaneously with these regulations to provide appropriate delegations of authority under the Executive Order, the Directive and these regulations.

These regulations have been approved by the Interagency Classification Review Committee, as required by the Executive Order and directive. They are issued pursuant to 5 U.S.C. 553 without notice of proposed rulemaking and without a 30-day delay in their effective date, as they are rules of agency organization, procedure and practice.

In consideration of the foregoing, 31 CFR, Subtitle A, is amended by adding Part 2 to read as follows:

AUTHORITY: E.O. 11652, 37 FR 5209; National Security Council Directive of May 17, 1972, 37 FR 10053.

Subpart A—General Provisions

§ 2.1 Purpose.

The purpose of the regulations in this part is to insure that information or material originated within the Department of the Treasury which requires classification in the interest of national security is classified in accordance with the provisions of Executive Order 11652, 37 FR 5209, and the National Security Directive of May 17, 1972, 37 FR 10053 (hereinafter referred to as the Executive Order and Directive), as supplemented by the regulations in this part, and that official information and material originating in or coming under the control or jurisdiction of the Department of the Treasury, which is classified in the interest of national security and in accordance with the provisions of the Executive Order and Directive, is protected, but only to the extent and for such period as is necessary. In addition, these regulations establish a monitoring system to insure the effectiveness of this security program throughout the Department of the Treasury.

§ 2.2 Definitions.

As used in the regulations of this part the following terms shall have the meaning indicated:

(a) *Classification*. The determination that official information or material requires, in the interests of national security, a specific degree of protection against unauthorized disclosure, coupled with a designation signifying that such a determination has been made.

(b) *Classified information*. Official information or material which has been determined by an appropriate authority to require, in the interests of national security, protection against unauthorized disclosure and which has been so designated.

(c) *Classifier*. An individual who determines that official information or material, not known by him to be already classified, currently requires, in the interests of national security, a specific degree of protection against unauthorized disclosure and, having authority to do so, designates that official information or material as Top Secret, Secret, or Confidential.

(d) *Compromise*. The known or suspected exposure of classified information or material to an unauthorized person.

(e) *Declassification*. The determination that particular classified information or material no longer requires, in the interests of national security, protection against unauthorized disclosure, coupled with a removal or cancellation of the classification designation.

(f) *Department*. The Department of the Treasury, including all bureaus, offices, services and divisions.

(g) *Downgrading*. The determination that particular classified information or material merits a lower degree of protection against unauthorized disclosure than currently provided, coupled with a changing of the classification designation to reflect such lower degree.

(h) *Information*. Knowledge which can be communicated by any means.

(i) *Material*. Any document, product, or substance on or in which information may be recorded or embodied.

(j) *National security*. Any matters bearing directly on the effectiveness of the national defense and the conduct of the foreign relations of the United States.

(k) *Nonrecord material*. Extra copies and duplicates, shorthand notes, preliminary drafts, used carbon paper, one-time typewriter ribbons, and other materials of a similar temporary nature.

(l) *Record material*. All documentary material made or received by a department or agency of the Government in connection with the transaction of public business and preserved as evidence of the organization, functions, policies, operations, decisions, procedures or other activities of any department or agency of the Government, or because of the informational value of the data contained therein.

(m) *Restricted data*. All data (information) concerning:

(1) Design, manufacture, or utilization of atomic weapons;

(2) The production of special nuclear material; or

(3) The use of special nuclear material in the production of energy, but not to include data declassified or removed from the Restricted Data category pursuant to section 142 of the Atomic Energy Act, as amended, 42 U.S.C. 2162.

§ 2.3 Responsibility for implementation.

The Assistant Secretary for Administration shall be responsible for insuring effective compliance with the implementation of the Executive Order and Directive and the regulations of this part.

§ 2.4 Material restricted under the Atomic Energy Act.

Nothing in these regulations shall supersede any requirements made by or under the Atomic Energy Act of 1954, as amended. "Restricted Data" and material designated as "Formerly Restricted Data" shall be handled, protected, classified, downgraded and declassified in conformity with the provisions of the Atomic Energy Act of 1954, as amended, and the regulations of the Atomic Energy Commission.

§ 2.5 Special departmental requirements with respect to information or material relating to intelligence or cryptography.

Nothing in these regulations shall prohibit compliance with any special requirements that another department or agency may impose as to classified information or material relating to communications intelligence, intelligence sources and methods, communications security, cryptography, and related matters originated by that department or agency.

§ 2.6 Material or information furnished by a foreign government or international organization.

Classified information or material furnished to the United States by a foreign government or an international organization shall either retain its original classification or be assigned a United States classification. In either case, the classification shall assure a degree of protection equivalent to that required by the government or international organization which furnished the information or material.

§ 2.7 Exemption from public disclosure.

Official information or material, which has been classified in accordance with the provisions of the Executive Order and Directive, is expressly exempted from public disclosure by section 552 (b)(1) of title 5, United States Code. Wrongful disclosure of such information or material is recognized in the Federal Criminal Code as providing a basis for prosecution.

§ 2.8 Bureau responsibility.

Each bureau head shall designate a member or members of his staff to conduct a continuing review of the implementation of the Executive Order and Directive and these regulations within his bureau. The Office of Administrative Programs, Assistant Director, (Physical Security) shall coordinate bureau reviews and is authorized to determine periodic or special reports which may be required. Copies of all regulations and procedures of general applicability issued by heads of bureaus shall be forwarded to the Office of Administrative Programs, Assistant Director (Physical Security).

§ 2.9 Individual responsibility.

Each employee, special Government employee, or consultant and each individual permitted access to classified information or material shall comply with the requirements of these regulations. The collection, obtaining, recording or removing for any personal use whatsoever, of any classified information or material is prohibited. A holder of classified information or material shall observe and respect the classification assigned by the originator. If a holder of classified information believes that there is unnecessary classification, that the assigned classification is improper, or that the document is subject to declassification under the Executive Order, the holder shall so inform the originator.

Subpart B—Security Classification Categories

§ 2.10 General.

Official information or material which requires protection against unauthorized disclosure in the interests of national security shall be classified in one of three categories, namely, Top Secret, Secret, or Confidential, depending upon the degree of its significance to national security. No other categories shall be used to identify official information or material as requiring protection in the interests of national security, except as otherwise expressly provided by statute.

§ 2.11 Top Secret.

Top Secret refers to that national security information or material which requires the highest degree of protection. The test for assigning a Top Secret classification shall be whether its unauthorized disclosure could reasonably be expected to cause exceptionally grave damage to the national security. Examples of "exceptionally grave damage" include armed hostilities against the United States or its allies; disruption of foreign relations vitally affecting the national security; the compromise of vital national defense plans or complex cryptologic and communications intelligence systems; the revelation of sensitive intelligence operations; and the disclosure of scientific or technological developments vital to national security. This classification shall be used with the utmost restraint.

§ 2.12 Secret.

Secret refers to that national security information or material which requires a substantial degree of protection. The test for assigning Secret classification shall be whether its unauthorized disclosure could reasonably be expected to cause serious damage to the national security. Examples of "serious damage" include disruption of foreign relations significantly affecting the national security; significant impairment of a program or policy directly related to the national security; revelation of significant military plans or intelligence operations; and compromise of significant scientific or technological developments relating to national security. The classification Secret shall be sparingly used.

§ 2.13 Confidential.

Confidential refers to that national security information or material which requires protection. The test for assigning Confidential classification shall be whether its unauthorized disclosure could reasonably be expected to cause damage to the national security.

§§ 2.14–2.19 [Reserved]

Subpart C—Classification and Markings

§ 2.20 Original classification authority.

The authority to originally classify official information or material is restricted to the officials authorized under Appendix A of these regulations. The authority inheres in the office and may be exercised by the person acting in that office. Officials authorized to classify information or material as Top Secret or Secret shall not redelegate such authority. However, as provided by Appendix A, such officials are authorized to delegate Confidential classification authority Delegations of such authority shall be

150

reported in writing to the Assistant Secretary for Administration. These delegations shall be limited to the minimum number absolutely required for efficient administration.

§ 2.21 Record of officials with classification authority.

The Assistant Secretary for Administration shall maintain a listing by name and position of the officials in the Office of the Secretary who are authorized under these regulations to originally classify documents as Top Secret, Secret, or Confidential. Officials within the Office of the Secretary with "Top Secret" or "Secret" classification authority shall report in writing to the Assistant Secretary for Administration the names of the officials designated in writing to have original Confidential classification authority. The head of each bureau shall maintain a listing of the officials in his bureau authorized to apply an original Confidential classification and shall furnish a copy of each listing to the Assistant Secretary for Administration. This listing shall be compiled as of July 1, 1972, and updated at least on a quarterly basis.

§ 2.22 Guidelines for classification.

Each person possessing original classification authority shall be held accountable for the propriety of classifications attributed to him. Both unnecessary classfication and over-classification shall be avoided. Classification shall be solely on the basis of national security considerations. In no case shall information be classified in order to conceal inefficiency or administrative error, or to prevent embarrassment to a person or the Department, to restrain competition or independent initiative, or to prevent for any other reason the release of information which does not require protection in the interest of national security. If the classifier has any substantial doubt as to which security classification category is appropriate, or as to whether the material should be classified at all, he should designate the less restrictive treatment.

§ 2.23 Derivative classification.

Any person who incorporates into a new document or other material information or material previously classified by an authorized official, as a result of, in connection with, or in response to existing material dealing with the same subject which already bears a classification, shall reflect the original classification and the identity of the original classifier on the new document or other material. Performance of this duty shall not constitute original classification. If all of the classified information contained in a document is classified due to classification imposed by a single outside source and no original classification is involved, the "classified by" line of the stamp shall identify the source document, including its date and also the official title and organization of the original classifier when known. In all cases, the official responsible for executing the "classified by" line on the stamp shall establish and retain adequate records to support his action.

§ 2.24 Marking of documents.

(a) *Purpose of designation.* Designation by physical marking, notation or other means, serves to inform and to warn the holder of the classification of the information involved, the degree of protection against unauthorized disclosure which is required for that particular level of classification, and to facilitate downgrading and declassification actions.

(b) *Wholly unclassified material.* Normally, unclassified material should not be marked or stamped "Unclassified" unless it is essential to convey to its recipient that it has been examined specifically for the need of a security classification or control designation and has been determined not to require such classification or control. However, preprinted forms such as telegrams which make provision for an assigned classification shall include the term "Unclassified" if the information contained in the text is not classified. Envelopes containing unclassified information to be sent by diplomatic pouch must be marked or stamped "Unclassified" on both sides.

§ 2.25 Classification markings on documents.

At the time of origination, each document or other material containing classified information shall be marked with its assigned security classification and whether it is subject to the General Declassification Schedule, whether it can be declassified earlier, or whether it is exempt from the General Declassification Schedule.

(a) *General Declassification Schedule.* For marking documents which are subject to the General Declassification Schedule, the following stamp shall be used:

(TOP SECRET, SECRET OR CONFIDENTIAL) CLASSIFIED BY ______________
SUBJECT TO GENERAL DECLASSIFICATION SCHEDULE OF EXECUTIVE ORDER 11652 AUTOMATICALLY DOWN GRADED AT TWO-YEAR INTERVALS AND DECLASSIFIED ON DEC. 31 (insert year)

(b) *Accelerated Declassification Schedule.* For marking documents which are to be automatically declassified on a given event or date earlier than the General Declassification Schedule the following stamp shall be used:

(TOP SECRET, SECRET OR CONFIDENTIAL) CLASSIFIED BY ______________
AUTOMATICALLY DECLASSIFIED ON
(effective date or event) Example: Date of Public Release

(c) *Exemptions from General Declassification Schedule.* For marking documents which are exempt from the General Declassification Schedule, pursuant to § 2.34, the following stamp shall be used:

(TOP SECRET, SECRET OR CONFIDENTIAL) CLASSIFIED BY ______________
EXEMPT FROM GENERAL DECLASSIFICATION SCHEDULE OF EXECUTIVE ORDER 11652 EXEMPTION CATEGORY (§ 5B (1), (2), (3), or (4)) AUTOMATICALLY DECLASSFIED ON ______________
(effective date or event, if any)

The "Restricted Data" and "Formerly Restricted Data" stamps (see § 2.26 (a), (b)) are in themselves, evidence of exemption from the General Declassification Schedule.

(d) *Failure to mark document.* Should the classifier inadvertently fail to mark a document with one of the foregoing stamps, the document shall be deemed to be subject to the General Declassification Schedule. The person who signs or finally approves a document or other material containing classified information shall be deemed to be the classifier. If the classifier is another person, the individual shall be identified on the stamp as indicated.

§ 2.26 Additional warning notices.

In addition to the foregoing marking requirements, warning notices shall be prominently displayed on classified documents or materials as prescribed below. When display of these warning notices on the documents or other materials is not feasible, the warnings shall be included in the written notification of the assigned classification.

(a) *Restricted data.* For classified information or material containing Restricted Data as defined in the Atomic Energy Act of 1954, as amended:

RESTRICTED DATA

This document contains Restricted Data as defined in the Atomic Energy Act of 1954, as amended. Its dissemination or disclosure to any unauthorized person is prohibited.

(b) *Formerly restricted data.* For classified information or material containing solely Formerly Restricted Data, as defined in section 142.d, Atomic Energy Act of 1954, as amended:

FORMERLY RESTRICTED DATA

Unauthorized disclosure subject to Administrative and Criminal Sanctions. Handle as Restricted Data in Foreign Dissemination. Section 144.b, Atomic Energy Act, 1954.

(c) *Other classified information (other than restricted data or formerly restricted data).* For classified information or material furnished to persons outside the executive branch of Government other than as described in items (a) and (b) above:

NATIONAL SECURITY INFORMATION

Unauthorized Disclosure Subject to Criminal Sanctions.

(d) *Sensitive intelligence information.* For classified information or material relating to sensitive intelligence sources and methods, the following warning notice shall be used, in addition to and in conjunction with those prescribed in paragraphs (a), (b), or (c) of this section, as appropriate:

181

WARNING NOTICE—SENSITIVE INTELLIGENCE SOURCES AND METHODS INVOLVED

§ 2.27 Overall marking and page marking.

The overall classification of a document, whether or not permanently bound, or any copy or reproduction thereof, shall be conspicuously marked or stamped at the top and bottom of the outside of the front cover (if any), on the title page (if any), on the first page, on the back page, and on the outside of the back cover (if any). To the extent practicable, each interior page of a document which is not permanently bound shall be conspicuously marked or stamped at the top and bottom according to its own content, including the designation "Unclassified" when appropriate.

(a) *Paragraph marking*. Whenever a classified document contains either more than one security classification category or unclassified information, each section, part, or paragraph should be marked to the extent practicable to show its classification category or that it is unclassified. When appropriate, the classification of each paragraph (including "Unclassified") may be indicated by closing the paragraph with the appropriate classification symbol for that paragraph, as follows: (TS), (S), (C), (UNCLAS).

(b) *Subjects, titles, abstracts and index terms*. Subjects, titles, abstracts and index terms shall be selected, if possible, so as not to require classification. However, a classified subject, title, abstract or index term may be used when necessary to convey meaning. To show its classified or unclassified status, each such item shall be marked with the appropriate symbol, (TS), (S), (C), or (U) placed immediately following and to the right of the item. When appropriate, the symbols (RD) and (FRD) shall be added.

(c) *File, folder or group of documents*. Files, folders or groups of documents shall be conspicuously marked to assure their protection to a degree as high as that of the most highly classified document included therein. Documents separated from the file, folder or group shall be marked as prescribed herein for individual documents.

(d) *Transmittal documents*. A transmittal document shall carry on it a prominent notation as to the highest classification of the information which is carried with it, and a legend showing the classification, if any, of the transmittal document standing alone. For example, in the case of an unclassified document which transmits as an attachment a classified document, it shall bear a notation substantially as follows: "REGRADED UNCLASSIFIED WHEN SEPARATED FROM CLASSIFIED ATTACHMENT."

§ 2.28 Marking of material other than documents.

If classified material cannot be marked, written notification of the information otherwise required in markings shall accompany such material.

(a) *Books or pamphlets*. Permanently bound books or pamphlets are to be conspicuously marked with the assigned classification or control designation at the top and bottom on the outside of the front cover, on the title page, on the first page, on the back page, and on the outside of the back cover. Other required markings must be placed on the outside of the front cover.

(b) *Reproducible masters*. Reproducible masters such as airgrams, mimeograph stencils, hectograph masters, photostatic negatives, or multilith plates used in the reproduction of classified or administratively controlled documents are to be marked so that each copy made from them will show the classification or control designation and other required markings. Preprinting of paper with classification control designation, or other pertinent markings, is authorized.

(c) *Photographic negatives, prints, slides and films*. Whenever possible, photographic negatives and slides are to be marked with the assigned classification or control designation at the top and bottom on the front. Photographic negatives in roll form contain the assigned classification or control designation at the beginning and end of each roll. In all cases, photographic prints are to be marked at the top and bottom of the front and on the back with the classification and control designation. If additional special markings are required, apply them conspicuously.

(d) *Charts, maps and drawings*. Charts, maps and drawings shall bear the appropriate classification marking under the legend, title block or scale, in such manner as to differentiate between the classification assigned to the document as a whole and the classification assigned to the legend or title, and so that it can be reproduced on all copies made. The markings also shall be inscribed at the top and bottom of each such document. Where the customary method of folding or rolling charts, maps or drawings would cover the classification markings, additional classification markings shall be placed so as to be clearly visible when the document is folded or rolled.

(e) *Decks of accounting machine cards*. A deck of classified accounting machine cards need not be marked individually but may be marked as one single classified document so long as they remain within the deck. A deck so marked shall be stored, transmitted, destroyed and otherwise handled in the manner prescribed for other classified documents of the same classification. An additional card shall be added, however, to identify the contents of the deck and the highest classification involved. Cards removed for separate processing or use, and not immediately returned to the deck after processing, shall be protected to prevent compromise of any classified information contained therein, and for this purpose shall be marked individually as prescribed herein for an individual ordinary document.

(f) *Electrical machine and Automatic Data Processing Tapes*. Electrical machine and Automatic Data Processing (ADP) tapes shall bear external markings and internal notations sufficient to assure that any recipient of the tapes, or of the classified information contained therein when reproduced by any medium, will know that classified information of a specific classification category is involved.

(g) *Pages of Automatic Data Processing listings*. Classification markings on pages of listings produced by ADP equipment may be applied by the equipment provided that the markings so applied are clearly distinguishable on the face of the document from the printed text. As a minimum, such listings shall be marked with the security classification on the first and last pages of the listing and on the front and back covers, if any, as previously prescribed in § 2.25.

§ 2.29 Downgrading, declassification and upgrading markings.

Whenever a change is made in the original classification or in the dates of downgrading or declassification of any classified information or material, it shall be promptly and conspicuously marked to indicate the change, the authority for the action, the date of the action, and the identity of the person taking the action. In addition, all earlier classification markings shall be canceled, if practicable, but in any event on the first page.

(a) *Markings for large quantities of material*. When the volume of information or material is such that prompt remarking of each classified item could not be accomplished without unduly interfering with operations, the custodian may attach downgrading, declassification, or upgrading notices to the storage unit in lieu of the re-marking otherwise required. Each notice shall indicate the change, the authority for the action, the date of the action, the identity of the person taking the action, and the storage units to which it applies. When individual documents or other materials are withdrawn from such storage units they shall be promptly re-marked in accordance with the change, or if the documents have been declassified, the old markings shall be canceled. However, when information or material subject to a posted downgrading, upgrading, or declassification notice are withdrawn from one storage unit solely for transfer to another, or a storage unit containing such documents or other materials is transferred from one place to another, the transfer may be made without re-marking if the notice is attached to or remains with each shipment.

(b) *Upgrading*. When material is upgraded under the provisions of these regulations, it shall be promptly and conspicuously marked, except that in all such cases the old classification marking shall be canceled and the new substituted therefor.

(c) *Marking of classified telegrams*. Information contained in Top Secret, Secret, and Confidential telegrams is subject to automatic downgrading, declassification, and decontrol procedures to the same extent as the substantive contents of nontelegraphic documents. In order to eliminate costly transmissions, standard abbreviations for required notations have been substituted, and will appear as the final unnumbered paragraph of the message text, as follows:

(1) For classified information that has been assigned to the General Declassification Schedule, add the abbreviation: GDS.

(2) For classified information that is to be declassified without reference to the General Declassification Schedule, add: ADS (Accelerated Declassification Schedule); DECLAS (insert date or other event or condition for declassification).

(3) For classified information that has been exempted from the General Declassification Schedule, add: XGDS (insert the category number 5B (1), (2), (3), or (4); DECLAS (insert appropriate date).

(4) The following abbreviations may be submitted for the warning notices indicated in § 2.26: RD (Restricted Data); FRD (Formerly Restricted Data); NSI (National Security Information); SIS (Sensitive Intelligence Sources and Methods).

(5) While the above abbreviations of warning notices are acceptable for telegrams, the preferred method is to include the warning notice as part of the message text. This procedure will immediately alert all recipients to the sensitivity of the message and the possible special handling requirements. For example, when classified information pertaining to sensitive intelligence sources and methods is used in a telegram, the first line of the message text shall read as follows:

WARNING NOTICE—
SENSITIVE INTELLIGENCE
SOURCES AND METHODS
INVOLVED

In all instances, drafters incorporating classified information from material bearing a warning notice or exemption from the General Declassification Schedule must ensure that the warning notice and/or exemption is "carried over" to the new document.

The record copy of all electrically transmitted messages must, of course, contain all information required by the Executive Order. It therefore must contain the name and initials of the official authorizing the classification, the declassification schedule and exemption from the schedule, if appropriate.

Subpart D—Downgrading and Declassification

§ 2.30 Authority to downgrade and declassify.

The authority to downgrade and declassify national security information or material within the Department of the Treasury shall be restricted to the officials authorized under Appendix A of these regulations. Delegations of authority to downgrade or declassify shall be reported in writing to the Assistant Secretary for Administration.

§ 2.31 Guidelines for downgrading and declassification.

The individual exercising original classifying authority shall, to the maximum extent practicable, predetermine at the time of origination, dates or events on which downgrading and declassification shall occur. These dates shall be as early as the national security will permit, and shall be in accordance with the limits of the dates of the General Declassification Schedule, as set forth in § 2.33, only if earlier dates cannot be predetermined.

§ 2.32 Dates or events carried forward.

Downgrading and declassification dates or events established in accordance with § 2.31 shall be carried forward and applied whenever the classified information or material is incorporated in other documents or material.

§ 2.33 General Declassification Schedule.

Classified information and material, unless downgraded or declassified earlier under the provisions of § 2.31 or exempted from the General Declassification Schedule under § 2.34, shall be assigned a date or event on which downgrading and declassification shall occur in accordance with the prescribed limits of the General Declassification Schedule outlined below:

(a) *Top Secret.* Information or material originally classified Top Secret shall become automatically downgraded to Secret at the end of the second full calendar year following the year in which it was originated, downgraded to Confidential at the end of the fourth full calendar year following the year in which it was originated, and declassified at the end of the tenth full calendar year following the year in which it was originated.

(b) *Secret.* Information and material originally classified Secret shall become automatically downgraded to Confidential at the end of the second full calendar year following the year in which it was originated, and declassified at the end of the eighth full calendar year following the year in which it was originated.

(c) *Confidential.* Information and material originally classified Confidential shall become automatically declassified at the end of the sixth full calendar year following the year in which it was originated.

§ 2.34 Exemptions from General Declassification Schedule.

Certain classified information or material may warrant some degree of protection for a period exceeding that provided in the General Declassification Schedule. An official authorized to originally classify information or material Top Secret may exempt from the General Declassification Schedule any level of classified information or material originated by him or under his supervision if it falls within one of the categories described below. In each case such official shall specify in writing on the material the exemption category being claimed and, unless impossible, a date or event for automatic declassification. The use of the exemption authority shall be kept to the absolute minimum consistent with national security requirements and shall be restricted to the following categories:

(a) Classified information or material furnished by foreign governments or international organizations and held by the United States on the understanding that it be kept in confidence.

(b) Classified information or material specifically covered by statute, or pertaining to cryptography, or disclosing intelligence sources or methods.

(c) Classified information or material disclosing a system, plan, installation, project or specific foreign relations matter the continuing protection of which is essential to the national security.

(d) Classified information or material the disclosure of which would place a person in immediate jeopardy.

§ 2.35 Applicability of the General Declassification Schedule to previously classified material.

Information or material classified before June 1, 1972, and which is assigned to Group 4 under Executive Order 10501, as amended by Executive Order 10964, shall be subject to the General Declassification Schedule. All other information or material classified before June 1, 1972, whether or not assigned to Groups 1, 2 or 3 of Executive Order 10501, as amended, shall be excluded from the General Declassification Schedule. However, at any time after the expiration of ten years from the date of origin it shall be subject to a mandatory classification review and disposition under the same conditions and criteria that apply to classified information and material created after June 1, 1972, as set forth in §§ 2.34 and 2.36.

§ 2.36 Mandatory review of material over ten years old.

Members of the public or other departments wishing to request review of classified material over ten years old in the custody of the Department of the Treasury shall apply in writing to the Office of Assistant Secretary for Administration, Department of the Treasury, Washington, D.C. A request must describe the material desired to be reviewed with sufficient particularity to enable the Department to identify it and obtain it with a reasonable amount of effort.

(a) *Action upon receipt of request for review.* The Assistant Secretary for Administration shall immediately forward the request for review of records over ten years old to the appropriate officer of the Department of the Treasury having Top Secret classification authority and shall acknowledge receipt of the request to the requester in writing. If the request requires the rendering of services for which fair and equitable fees should be charged pursuant to 31 U.S.C. 483a, the requester shall be so notified. The officer to which action has been assigned shall, whenever the request is deficient in its description of the record sought, ask the requester to provide additional identifying information whenever possible.

(b) *Initial determination.* The request shall be reviewed and a determination made within thirty days after the receipt of identifying information whether continued classification is required under the criteria of § 2.34. If the request is denied, the determining officer must indicate to the Assistant Secretary for Administration in a brief statement the reason for continued classification and, unless impossible, specify the date on which such matter shall be declassified. Whenever possible, the Assistant Secretary for Administration shall furnish the requester with a copy of that statement.

(c) *Right of appeal to the Departmental Committee on National Security Information.* If the request is denied or no answer is received after sixty days, the requester may appeal to the Departmental Committee on National Security Information as provided by Appendix A. The Departmental Committee shall act upon the appeal within thirty days.

(d) *Right of appeal to the Interagency Classification Review Committee.* If the Departmental Committee determines that continued classification is required, it shall also so notify the requester and that he may appeal that denial to the Interagency Classification Review Committee.

§ 2.37 Declassification of material over thirty years old.

All classified information or material which is thirty years old or more over which the Department exercises exclusive or final original classification authority is subject to declassification as provided in §§ 2.38–2.40.

§ 2.38 Automatic declassification of thirty-year-old material originated after June 1, 1972.

All information and material classified after June 1, 1972, whether or not declassification has been requested, becomes automatically declassified at the end of thirty full calendar years after the date of its original classification except for such specifically identified information or material which the Secretary of the Treasury personally determines in writing at that time to require continued protection against unauthorized disclosure because such continued protection is essential to the national security or disclosure would place a person in immediate jeopardy. In such case, the Secretary of the Treasury shall also specify the period of continued classification.

§ 2.39 Systematic review of thirty-year-old material originated before June 1, 1972.

All information and material classified before June 1, 1972, and more than thirty years old is to be systematically reviewed for declassification by the Archivist of the United States by the end of the thirtieth full calendar year following the year in which it was originated. The Assistant Secretary for Administration is authorized to assign personnel to assist the Achivist of the United States in the exercise of this review responsibility with respect to classified material originating within the Department of the Treasury. Such personnel shall: (a) provide guidance and assistance to archival employees in identifying and separating those materials originated in the Department which are deemed to require continued classification; and (b) develop a list for submission to the Secretary of the Treasury, with recommendations concerning continued classification. The Secretary of the Treasury will then determine which of the materials listed require continued protection because such continued protection is essential to the national security or disclosure would place a person in immediate jeopardy. The Secretary of the Treasury will provide the Archivist with a list which identifies the documents deemed to require continued classification, indicates the reason for continued classification and specifies the date on which such material shall be declassified.

§ 2.40 Mandatory review of material over thirty years old.

(a) *Action upon receipt of request.* The Assistant Secretary for Administration shall immediately forward the request for review of records more than thirty years old to an appropriate office of the Department of the Treasury and shall acknowledge receipt of the request to the requester in writing.

(b) *Determination by the Secretary.* That office shall review the request and within twenty-one days forward to the Secretary of the Treasury through the Assistant Secretary for Administration a recommendation whether continued classification is required under the criteria of §§ 2.38–2.39. The Secretary shall make a determination based on that recommendation.

(c) *Right of appeal to the Interagency Classification Review Committee.* If the Secretary of the Treasury determines that continued classification is required, the Assistant Secretary for Administration shall promptly notify the requester that he may appeal that denial to the Interagency Classification Review Committee, and, whenever possible, shall furnish the requester with a brief statement why continued classification is required.

§ 2.41 Departmental Committee on National Security Information.

A Departmental Committee on National Security Information is established which shall be composed of the Assistant Secretary for Administration, as chairman, the General Counsel and the Special Assistant to the Secretary (National Security), as members. The functions of the Departmental Committee shall include the following:

(a) Review of and action upon applications and appeals regarding requests for declassification, as provided in § 2.36.

(b) Review, upon request, of all decisions denying Treasury Department information and material on the ground of exemption under 5 U.S.C. 552(b)(1) except decisions of the Secretary of the Treasury continuing the classification of material over thirty years old under Part III D of the Directive and § 2.40.

(c) Action upon complaints in the administration of the Executive Order and Directive and these regulations.

(d) Establish the policy of the Department with respect to the enforcement of the Executive Order and Directive and these regulations.

§ 2.42 Burden of proof.

For purposes of administrative determinations under §§ 2.36 and 2.40, the burden of proof is on the originating office in the Office of the Secretary or the bureau to show that continued classification is warranted within the terms of the Executive Order and Directive.

§ 2.43 Notification of change in classification or of declassification.

When classified information or material is downgraded or declassified in a manner other than originally specified, whether scheduled or exempted, or is upgraded, or is subject to a change in exemption status, the classifier or the custodian of the records shall, to the extent practicable, promptly notify all addressees to whom the information or material was originally officially transmitted. The recipients of this notification shall notify addressees to whom in turn they have transmitted the classified information or material.

§§ 2.44–2.49—[Reserved]

Subpart E—Access

§ 2.50 General.

Access to classified information shall be granted only in accordance with the regulations provided in Part VIA of the Directive as supplemented by the regulations of this part. No individual shall be entitled to receive or handle classified information or material solely because of his official position or because he has a valid security clearance. He must have in addition the need for access to the particular classified information or material sought in connection with the performance of his official duties or contractual obligations. The determination of the need shall be made by the official having the responsibility for the safeguarding of the classified information or material.

§ 2.51 Access by historical researchers.

(a) *Requirements for grant of access.* Persons outside the executive branch engaged in historical research projects desiring to request access to classified information or material under the control of the Department shall apply in writing to the Office of the Assistant Secretary for Administration, Department of the Treasury, Washington, D.C. The request for access may be granted provided that the Secretary of the Treasury determines that:

(1) Access is clearly consistent with the interests of national security.

154

(2) The information or material requested is reasonably accessible and can be located and compiled with a reasonable amount of effort.

(3) The historical researcher agrees to safeguard the information or material in a manner consistent with the Executive Order and Directive.

(4) The historical researcher agrees to authorize a review of his notes and manuscript for the sole purpose of determining that no classified information or material is contained therein.

(b) *Period of access authorization.* An authorization for access shall be valid for the period required but no longer than two years from the date of issuance unless reviewed by the Secretary of the Treasury upon written application to the Office of the Assistant Secretary for Administration, Department of the Treasury, Washington, D.C.

§ 2.52 Access by certain officials and employees of Federal Reserve Banks.

(a) *Requirements for grant of access.* Officials and employees of Federal reserve banks, which are authorized to serve as fiscal agents of the United States and perform functions related to the issuance and redemption of United States securities, may be granted access to classified national security information or material by the Under Secretary for Monetary Affairs, or his designee, when: (1) the information is classified by a Treasury officials or consent for dissemination to the Federal Reserve bank has been obtained from the originating department, under § 2.54; (2) the Federal Reserve bank officials or employees need to have knowledge of such information or material in connection with activities approved by the Under Secretary for Monetary Affairs, or his designee, as being in the interests of the United States; and (3) the Federal Reserve bank officials and employees are cleared by the Department of the Treasury under the procedures and standards applicable to Treasury officials and employees.

(b) *Adjustment or withdrawal of security clearance.* The Under Secretary for Monetary Affairs, or his designee, shall also be responsible for adjusting or withdrawing the security clearance of any Federal Reserve bank official or employee who no longer needs access to classified national security information or material at a particular level in connection with the official performance of duties.

§ 2.53 Access by former Presidential appointees.

(a) Persons who previously occupied policy-making positions to which they were appointed by the President may be authorized access to classified information or material which they originated, reviewed, signed or received while in public office, provided that the Secretary of the Treasury determines that: (1) access is clearly consistent with the interests of national security; and (2) the Presidential appointee agrees to safeguard the information or material in a manner consistent with the Executive Order and Directive.

(b) Upon request of any such former official, such information or material as he may identify shall be reviewed for declassification in accordance with the provisions of Subpart D. The former Presidential appointees referred to herein do not include the White House staff, or members of special Presidential committees or commissions.

§ 2.54 Dissemination by the Department of classified information or material originated by another department.

Classified information or material originating in another department and made available to the Department of the Treasury shall not be disseminated outside the Department without the consent of the originating department.

§§ 2.55–2.59—[Reserved]

Subpart F—Accountability

§ 2.60 Top Secret Control Officers.

Each Treasury bureau and the Office of the Secretary shall designate a Top Secret Control Officer. Top Secret Control Officers so designated shall receive, maintain current accountability records of, and dispatch Top Secret material, and shall also conduct an annual physical inventory of all Top Secret material. Top Secret Control Officers shall conduct the required physical inventory in the presence of a disinterested individual and shall complete the same by the first day of May. Any Top Secret document unaccounted for must be reported to the Assistant Secretary for Administration. Top Secret Control Officers shall conduct periodic reviews of Top Secret documents within their control to insure that those Top Secret documents subject to the General Declassification Schedule are downgraded or declassified as required.

§ 2.61 Control of Top Secret Material.

(a) A Treasury Department Form 4031 (Top Secret Document Record) shall be attached to the first page or cover of the original and each copy of Top Secret material. The Top Secret Document Record shall be completed by the Top Secret Control Officer, and shall identify the Top Secret material attached, and shall serve as a permanent record of the material. All persons, including stenographic and clerical personnel, having access to the material attached to the Top Secret Document Record must sign and date the Treasury Form 4031 prior to accepting responsibility for its custody. The Treasury Form 4031 shall indicate those individuals to whom only oral disclosure is made. The Top Secret Document Record shall remain attached to the Top Secret material until it is either transferred to another U.S. Government agency, downgraded, declassified or destroyed. Whenever any one of these actions is taken, the Top Secret Control Officer shall record the action on the Top Secret Document Record and retain it for a period of three years at which time it may be destroyed.

(b) Top Secret documents shall be sequentially numbered in a calendar year series by Top Secret Control Officers as received, by them, and the number shall be posted to the Top Secret document, Treasury Form 4031 and Treasury Form 2747 Revised (Classified Document Accountability Record).

(c) Top Secret Control Officers shall maintain current records of persons within their respective office or bureau who are cleared for access to Top Secret information or material.

§ 2.62 Accountability of classified material.

Treasury Department Form 2747 Revised (Classified Document Accountability Record) shall be the exclusive classified document accountability record for use within the Department of the Treasury. No other logs or records shall be required except for the use of Treasury Form 4031 for Top Secret material. Form 2747 shall be used for single or multiple document receipting, internal and external routing, and as a certificate of destruction. The inclusion of classified information on Form 2747 is prohibited. In the event the subject title is classified, a recognizable short title shall be used, e.g., first letter of each letter word in the subject title. Several items may be transmitted to the same addressee under the cover of one Form 2747. When the original and/or copies of the document are destroyed, the destruction certificate section of the form shall be completed to include the date and method of destruction and signed by the individuals accomplishing the destruction. Form 2747 may be destroyed three years after the date of the final disposition of the document.

(a) *Top Secret material.* Top Secret material shall be subject to a continuous receipt system regardless of how brief the period of custody. Treasury Form 2747 shall be used for this purpose. Top Secret accountability records shall be maintained by Top Secret Control Officers separately from the accountability records of other classified material.

(b) *Secret material.* Receipt on Treasury Form 2747 shall be required for transmission of Secret material between bureaus, offices and saparate agencies. Responsible officials shall determine administrative procedures required for the internal control within the respective offices or bureaus. The volume of classified material handled and personnel resources available must be considered in determining the practical balance between security measures imposed and the attainment of operating efficiency.

(c) *Confidential material.* Receipts for Confidential material shall not be required unless the originator clearly indicates that receipting is necessary.

§ 2.63 Restraint on reproduction.

Documents or portions of documents containing Top Secret information shall not be reproduced without the consent of the originating office and any reproduction so authorized must be appropriately controlled. The authority for reproduction shall be noted on the copy from which the reproduction is made. The office reproducing Top Secret material shall place this material under Top Secret control and shall maintain appropriate records to reflect the number of copies reproduced and shall observe all other requirments concerning the control of distribution of such copies. The reproduction of Secret material shall be placed under the same control as the parent document. Confidential documents may be reproduced without permission of the originating official, office or department. However, all classified material shall be reproduced sparingly and any stated prohibition against reproduction shall be strictly adhered to. The number of copies of documents containing classified information shall be kept to the absolute minimum required to meet operational needs in order to decrease the risk of compromise, administrative burden and to reduce storage costs.

§ 2.64 **Data Index System.**

A Data Index System for documents originally classified within the Department of the Treasury shall be established in accordance with the Executive Order and Directive as implemented by the Department of the Treasury Administrative Circular No. 236.

§§ 2.65–2.69 **[Reserved]**

Subpart G—Safekeeping and Storage

§ 2.70 **General policy.**

Classified information or material may be used, held or stored only where there are facilities or under conditions adequate to prevent unauthorized persons from gaining access to it.

§ 2.71 **Standards for storage equipment.**

The General Services Administration establishes and publishes uniform standards, specifications, and supply schedules for containers, vault doors, alarm systems, and associated security devices suitable for the storage and protection of classified information throughout the Government. Storage equipment used for the protection of classified information and material within the Department shall meet or exceed these standards.

§ 2.72 **Storage of classified material.**

Whenever classified material is not under the personal control and observation of an authorized person, it will be guarded or stored in a locked security container as prescribed below:

(a) *Top Secret.* Top Secret information and material shall be stored in a safe or safe-type steel file container having a built-in three-position dial-type combination lock, or in a vault, vault-type room, or other storage facility which meets the standards for Top Secret established under § 2.71.

(b) *Secret and Confidential.* Secret and Confidential material may be stored in a manner authorized for Top Secret information and material, or in a container, or vault which meets the standards for Secret or Confidential, as the case may be, established under § 2.71 and Appendix A of the Directive.

§ 2.73 **Security storage equipment.**

(a) *Combinations.* Combinations to security equipment and devices shall be changed only by persons having appropriate security clearance, and shall be changed whenever such equipment is placed in use, whenever a person knowing the combination is transferred from the office to which the equipment is assigned, whenever a combination has been subjected to possible compromise, and at least once every year. Knowledge of combinations shall be limited to the minimum number of persons necessary for operating purposes. Records of combinations shall be classified no lower than the highest category of classified information or material authorized for storage in the security equipment concerned.

(b) *Safe Combination Records.* Combinations to equipment containing classified information and material shall be recorded on Treasury Form No. 4032 (Security Container Information). Such forms shall be completed in their entirety. Part 1 of the Form shall be posted on the interior of the top or locking drawer of the safekeeping equipment concerned. The names, addresses and home telephone numbers of personnel responsible for the combination and the classified information and material stored therein must be posted on part 1 of the Form. Part II shall be properly completed, inserted in the envelope (part III) provided and forwarded to the designated central repository for safe combinations. Parts II and III shall show the appropriate classification marking.

(c) *Safe or Cabinet Security Record.* Each piece of equipment used for the storage of classified material will have attached conspicuously to the outside a General Services Administration Optional Form 62 (Safe or Cabinet Security Record) on which an authorized person will record the time and date each time he unlocks or locks the security equipment, followed by his initials. In addition, at the close of each working day or when a security container is locked at times other than normal duty hours, the person locking the security container will be required to check it to insure that it is locked, and will record the time and date he checked the security container followed by his initials. The checking procedure stated above applies for each normal working day regardless of whether or not the security container was opened on that particular day. A security container will not be left unattended until it has been locked by an authorized person and checked by a second person. Additional safe security requirements are:

(1) Reversible "OPEN-CLOSED" signs which are available through normal supply channels, shall be used as additional reminders on each security container containing classified information.

(2) The tops of security containers shall be kept free of all extraneous matter.

§ 2.74 **Classified document cover sheets.**

In order to alert personnel to the fact that a document or folder is classified and to protect it from unauthorized scrutiny, cover sheets, available through normal supply channels, will be used to cover classified documents when in use. Classified document cover sheets will be removed before classified material is filed. Classified document cover sheets will be removed from classified documents prior to transmission except when the transmission is made internally within a headquarters by courier or messenger or by personal contact.

§ 2.75 **Responsibilities of custodians.**

Custodians of classified material shall be responsible for providing protection and accountability for such material at all times and particularly for locking classified material in approved security equipment whenever it is not in use or under direct supervision of authorized persons. Custodians shall follow procedures which insure that unauthorized persons do not gain access to classified information or material by sight or sound, and classified information shall not be discussed with or in the presence of unauthorized persons.

§ 2.76 **Report of loss or compromise.**

Any employee of the Department of the Treasury who has knowledge of the loss or possible compromise of classified information or material shall immediately report the circumstances to the appropriate bureau head or his designee who shall take appropriate action forthwith. In turn, the originating department and any other interested department shall be notified about such loss or possible compromise.

§ 2.77 **Inquiry.**

If the loss or possible compromise occurs in any Treasury bureau, the Assistant Secretary for Administration shall be notified. He shall then direct an immediate inquiry to be conducted for the purpose of taking corrective measures and assessing damages. Based on the results of the inquiry recommendations shall be made to the Assistant Secretary for Administration as to the appropriate administrative, disciplinary, or legal action to be taken.

§§ 2.78–2.79—**[Reserved]**

Subpart H—Transmission

§ 2.80 **General policy.**

Classified information or material shall be transmitted between Treasury bureaus and buildings and outside the Department only in accordance with the requirements of this subpart. However, within the Main Treasury Building and within each separate bureau building, such information or material may be transmitted between offices by direct contact of the officials concerned in a single sealed opaque envelope with no security classified category being shown on the outside of the envelope. Classified information or material shall never be delivered to unoccupied rooms or offices.

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§ 2.81 **Preparation.**

Classified information and material shall be enclosed in opaque inner and outer covers before transmitting. The inner cover shall be a sealed wrapper or envelope plainly marked with the assigned classification and address. The outer cover shall be sealed and addressed with no indication of the classification of its contents.

§ 2.82 **Transmission of Top Secret.**

The transmission of Top Secret information and material shall be effected preferably by oral discussion in person between the officials concerned. Otherwise, the transmission of Top Secret information and material shall be by specifically designated personnel, by State Department diplomatic pouch, by a messenger-courier system especially created for that purpose, over authorized communications circuits in encrypted form or by other means authorized by the National Security Council.

§ 2.83 **Transmission of Secret.**

The transmission of Secret material shall be effected in the following manner:

(a) *The Fifty States, District of Columbia, Puerto Rico.* Secret information and material may be transmitted within and between the forty-eight contiguous states and the District of Columbia, or wholly within the State of Hawaii, the State of Alaska, or the Commonwealth of Puerto Rico by one of the means authorized for Top Secret information and material, the United States Postal Service registered mail and protective services provided by the United States air or surface commercial carriers.

(b) *Other areas, vessels, military postal services, aircraft.* Secret information and material may be transmitted from or to or within areas other than those specified in paragraph (a) of this section, by one of the means established for Top Secret information and material, captains or masters of vessels of United States registry, under contract to a department of the executive branch, United States registered mail through Army, Navy or Air Force Postal Service facilities provided that material does not at any time pass out of United States citizen control and does not pass through a foreign postal system, and commercial aircraft under charter to the United States and military or other Government aircraft.

(c) *Canadian Government installations.* Secret information may be transmitted between United States Government or Canadian Government installations, or both, in the forty-eight contiguous states, Alaska, the District of Columbia, and Canada by United States and Canadian registered mail with registered mail receipt.

(d) *Special cases.* The use of the United States Postal Service registered mail outside the forty-eight contiguous states, the District of Columbia, the State of Hawaii, the State of Alaska, and the Commonwealth of Puerto Rico is authorized if warranted by security conditions and essential operational requirements, provided that the material does not at any time pass out of United States Government and United States citizen control and does not pass through a foreign postal system.

§ 2.84 **Transmission of Confidential.**

Confidential information and material shall be transmitted within the forty-eight contiguous states and the District of Columbia, or wholly within Alaska, Hawaii, the Commonwealth of Puerto Rico, or a United States possession, by one of the means established for higher classifications, or by certified or first-class mail. Outside these areas, Confidential information and material shall be transmitted in the same manner as authorized for higher classifications.

§ 2.85 **Transmission by personnel in travel status.**

(a) *General provisions.* Personnel in travel status shall physically transport classified material across international boundaries only in exceptional circumstances. In each instance, a determination shall be made on a case by case basis, by a responsible official that it is necessary for the appropriately cleared traveler physically to transmit classified material. Whenever possible, and when time permits, classified material shall be transmitted by other authorized means to the location being visited. The physical transportation of classified material on non-U.S. flag aircraft shall be avoided.

(b) *Specific safeguards.* If it be determined that the transportation of classified material by an individual in travel status is in the best interest of the U.S. Government, the following specific safeguards will be provided for:

(1) Classified material shall be in the physical possession of the individual with adequate safeguards at all times if proper storage at a U.S. Government facility is not available. Under no circumstances, shall classified material be stored in hotel safes or rooms, locked automobiles, private residences, train compartments, or any vehicular detachable storage compartments.

(2) An inventory of all classified material shall be made prior to departure and a copy of same shall be retained by his office until his return at which time all classified material shall be accounted for.

(3) Classified material shall not be displayed or used in any manner in public conveyances or rooms.

(4) The individual shall have in his possession a written Department of the Treasury authorization to transport classified material. This courier authorization, along with official travel orders, should in most instances permit the individual to pass through any customs without the need for subjecting the classified material to inspection. If difficulty is encountered, the individual should tactfully refuse to exhibit or disclose the classified material to customs inspection and should insist on the assistance of the local U.S. diplomatic representative at the port of entry or departure.

(5) Upon completion of the visit, the individual shall have the material returned to his office by approved means. All material taken for the purpose of the visit shall be accounted for. If any classified items are left with the office being visited for its retention and use, the individual shall obtain a receipt.

§ 2.86 **Telecommunications transmissions.**

Classified information shall not be communicated by telecommunication transmission, except as may be authorized under §§ 2.82–2.84 with respect to the transmission of classified information over approved communications circuits or systems.

§§ 2.87–2.89 **[Reserved]**

Subpart I—Destruction of Classified Information and Material

§ 2.90 **Methods of destruction.**

When information or material classified under the authority of Executive Order 11652 is to be destroyed, destruction shall be by burning, mulching, or shredding in the presence of an individual or individuals specifically designated by the appropriate bureau head.

§ 2.91 **Approval of use of mulching and shredding machines.**

Prior to a bureau obtaining a mulching or shredding machine, the Office of Administrative Programs, Assistant Director (Physical Security) shall approve the use of such a machine.

§ 2.92 **Destruction by burning.**

Any classified information or material to be destroyed by burning shall be torn and placed in containers designated as burnbags and shall be clearly and distinctly labeled "Burn." Burnbags awaiting destruction shall be protected by security safeguards commensurate with the classification or control designation of the material involved.

§ 2.93 **Records of destruction.**

Each bureau head shall cause appropriate accountability records to be maintained for his bureau to reflect the destruction of classified national security information or material.

§ 2.94 **Destruction of nonrecord material.**

Nonrecord classified material such as extra copies and duplicates, including shorthand notes, preliminary drafts, used carbon paper and other material of similar temporary nature, shall also be destroyed by burning, mulching, or shredding as soon as it has served its purpose, but no records of such destruction need be maintained.

§§ 2.95–2.99 **[Reserved]**

Subpart J—Training and Orientation

§ 2.100 **Briefing of employees.**

All new employees concerned with classified information and material shall be afforded a security briefing regarding the Executive Order and Directive. Those new employees concerned with classified information or material pertaining to intelligence sources, methods, operations, or plans shall be required to read and sign a Security Agreement. All new employees afforded a security briefing shall be provided with copies of applicable laws and pertinent security regulations setting forth the procedures for the protection and disclosure of classified information and material. All employees concerned with classified information and material shall receive periodic reorientation briefings during their employment which are designed to impress upon them their responsibility for exercising care and vigilance in complying with the provisions of the Executive Order and implementing regulations.

§ 2.101 Debriefing of employees.

Any personnel possessing a security clearance, at all levels of employment and without exception, when terminating employment or contemplating temporary separation for a sixty-day period or more, shall be debriefed concerning their continued responsibility to safeguard classified information and material, and reminded of the provisions of the Criminal Code and other applicable provisions of law relating to penalties for unauthorized disclosure.

§ 2.102 Departmental administration.

The Office of Administrative Programs, Assistant Director (Physical Security), under the direction of the Assistant Secretary for Administration, shall establish, coordinate and maintain active training, orientation and inspection programs for employees concerned with classified information or material to assure that the provisions of the Executive Order and Directive are effectively administered throughout the Department of the Treasury.

§ 2.103 Bureau administration.

Each bureau head shall designate an official to coordinate and supervise the activities applicable to his bureau to maintain the programs of training, orientation, and inspection established by the Office of Administrative Programs, Assistant Director (Physical Security) and to carry out related activities of section 7(B)(3) of the Executive Order.

§§ 2.104–2.109 — [Reserved]

Subpart K—Administrative and Judicial Action

§ 2.110 Enforcement policy.

The Departmental Committee on National Security Information shall have the responsibility for establishing the Department's policy with respect to the enforcement of the Executive Order and Directive and these regulations.

§ 2.111 Applicability.

(a) Any individual, at any level of employment, determined to have been responsible for any unauthorized release or disclosure of national security information or material shall be notified that his action is in violation of the Executive Order, the implementing National Security Council Directive, or these regulations. In addition, he shall be subject to prompt and stringent action including, as appropriate in the particular case, a warning notice, formal reprimand, suspension without pay, or dismissal, in accordance with applicable personnel rules, regulations and procedures. Where a violation of criminal statutes may be involved, any such case shall be promptly referred to the Department of Justice.

(b) Repeated abuse of the classification process, either by unnecessary or over-classification, or repeated failure, neglect or disregard of established requirements for safeguarding classified information or material by any officer or employee shall be grounds for appropriate adverse or disciplinary action. Such action may include a warning notice, formal administrative reprimand, suspension without pay, or dismissal, as appropriate in the particular case, in accordance with applicable personnel rules, regulations and procedures.

§ 2.112 Disciplinary action.

After an affirmative adjudication of a security violation and as the occasion demands, reports of accountable security violations may be placed in the employee's official personnel folder and security file. The security official of the bureau or office concerned shall recommend to the respective management official or bureau head that disciplinary action be taken when such action is indicated. However, should circumstances warrant, the Department may take action under provisions of these regulations, of Executive Order 11652, any implementing National Security Council Directives, and Executive Order 10450, or any superseding applicable Executive Order.

Effective date: July 1, 1973.

Dated: July 9, 1973.

[SEAL] GEORGE P. SHULTZ,
Secretary of the Treasury.

APPENDIX A—DEPARTMENT OF THE TREASURY, TREASURY DEPARTMENT ORDER NO. 160, REVISED

DELEGATION OF AUTHORITY CONCERNING IMPLEMENTATION OF EXECUTIVE ORDER 11652, AS AMENDED, AND THE NATIONAL SECURITY DIRECTIVE OF MAY 17, 1972

By virtue of the authority delegated to me as Secretary of the Treasury by Executive Order 11652, 37 FR 5209, and National Security Council Directive of May 17, 1972, 37 FR 10053 (hereinafter referred to as the Executive Order and Directive), it is hereby ordered as follows:

SECTION 1. *Compliance responsibility.* The Assistant Secretary for Administration is delegated the authority to insure effective compliance with the implementation of the Executive Order and Directive and the Treasury regulations published thereunder in Part 2 of Title 31 of the Code of Federal Regulations. The Assistant Secretary for Administration is specifically delegated the authority to assign personnel to assist the Archivist of the United States in the exercise of his responsibility to review systematically for declassification all Treasury Department material classified before June 1, 1972, and more than thirty years old, and to perform other functions specified in part II D of the Directive.

SEC. 2. *Authority to classify*—(a) *Top Secret.* The authority to classify information or material as Top Secret, Secret, or Confidential within the Department of the Treasury is hereby delegated to the Deputy Secretary, the Under Secretary for Monetary Affairs, the Under Secretary, the General Counsel, the Deputy Under Secretaries, the Assistant Secretaries, the Special Assistant to the Secretary (National Security), the Special Assistant to the Secretary (Public Affairs), and the Assistant to the Secretary for Legislative Affairs.

(b) *Secret.* The authority to classify information or material as Secret or Confidential within the Department of the Treasury is hereby delegated to the heads of bureaus.

(c) *Confidential.* Officials who possess Top Secret or Secret classification authority are hereby delegated the authority to designate in writing by title of position other officials who may exercise Confidential classification authority within the Department of the Treasury.

SEC. 3. *Authority to downgrade and declassify.* The authority to downgrade and declassify national security information or material within the Department of the Treasury shall be exercised by the following officials:

(a) The official authorizing the original classification, a successor in that capacity, or a supervisory official of either.

(b) An official specifically authorized in writing by an official authorized to classify information or material as Top Secret or Secret.

SEC. 4. *Departmental Committee on National Security Information.* There is hereby established a Departmental Committee on National Security Information which shall be composed of the Assistant Secretary for Administration, as chairman, and the General Counsel and the Special Assistant to the Secretary (National Security), as members. The functions of the Departmental Committee shall include the following:

(a) Review of and action upon applications and appeals regarding request for declassification, as provided in the Treasury regulations, 31 CFR Part 2, implementing the Executive Order and Directive.

(b) Review, upon request, of all decisions denying Treasury information and material on the ground of exemption under 5 U.S.C. 552(b)(1) except decisions of the Secretary of the Treasury continuing the classification of material over thirty years old under Part III D of the Directive and the Treasury regulation thereunder, 31 CFR 2.40.

(c) Action upon complaints in the administration of the Executive Order and Directive and the Treasury regulations thereunder.

(d) Establish the policy of the Department with respect to the enforcement of the Executive Order and Directive and the Treasury regulations thereunder.

SEC. 5. *Data Index System.* The Assistant Secretary for Administration is delegated the authority to establish a Data Index System in accordance with Part VII of the Directive. The Office of Administrative Programs, Assistant Director (Physical Security), shall maintain the Departmental Data Index System control file for all national security information or material originally classified within the Department.

158

SEC. 6. *Training, orientation and inspection.* The Office of Administrative Programs, assistant Director (Physical Security), is hereby delegated, subject to the direction of the Assistant Secretary for Administration, the functions of establishing, coordinating and maintaining active training, orientation and inspection programs for employees concerned with classified information or material to assure that the provisions of the Executive Order and Directive are effectively administered throughout the Department of the Treasury.

SEC. 7. *Supersession.* This Treasury Department Order supersedes Treasury Department Order No. 160, Revised, entitled "National Security Information," issued under Executive Order 11652, August 3, 1972 37 FR 20990.

Effective date: July 1, 1973.

Dated: July 9, 1973.

[SEAL] GEORGE P. SCHULTZ,
Secretary of the Treasury.

[FR Doc.73-14505 Filed 7-18-73;8:45 am]

Department of the TREASURY
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154

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FOR RELEASE, MONDAY, JULY 23, 1973 A.M.

BOOKS CLOSE ON FIRST THREE REVENUE SHARING PERIODS AND REGULATIONS ARE AMENDED

The Office of Revenue Sharing of the U.S. Treasury Department announced today that it has completed its review of data, calculated adjustments to past payments based on new data and closed the books on the first 18 months of the revenue sharing program.

In making the announcement, Graham W. Watt, Director of the Office of Revenue Sharing, said that except for jurisdictions with requests for substantiation or correction of data that date from before July 1, 1973, no further adjustments will be made for payments covering the period from January of 1972 through June of 1973.

Notice of the final date for determination of allocations and entitlements was published in the Federal Register of July 18, 1972 (38 F.R. 19140).

Adjustments made before the books were closed will be reflected in the amounts being paid during the fourth entitlement period, July 1, 1973-June 30, 1974.

Estimates of shared revenues to be paid each jurisdiction during the fourth entitlement period will be announced by the Office of Revenue Sharing Tuesday, July 24, 1973.

In addition, the Office of Revenue Sharing has published amendments to the permanent regulations governing the administration of general revenue sharing.

Notice of the amendments was given in the Federal Register on July 13, 1973. (38 F.R. 18668).

According to Graham Watt, "These amendments clarify the procedure for effecting compliance with the State and Local Fiscal Assistance Act of 1972 (P. L. 92-512) that established the general revenue sharing program. The Secretary of the Treasury, George P. Shultz, is empowered by the regulations to delay revenue sharing payments to recipient governments that fail to comply with the reporting requirements of the Act until he determines that compliance has been achieved."

"The new provisions also clarify the procedures for recipients to waive their participation in general revenue sharing. The regulation requiring the report on actual uses of shared revenues has also been changed. Minor changes for clarification were made to the sections of the regulations regarding the transfer of money by recipient governments to other units of government or private

16D

organizations, and the maintenance of state transfers to local levels of government."

The revised regulations (Section 51.25 (a)) establish a new Obligated Adjustment Reserve fund to be made up of one half of one percent of the funds appropriated for each entitlement period. The fund will be used to make extraordinary payments to jurisdictions for which revised allocations are required after the books have been closed on an entitlement period. When more than enough funds for this purpose have been accumulated, the excess will be returned to eligible recipients from the fund according to the same formula that is used to allocate entitlement funds during regularly-scheduled payment periods.

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191

FOR IMMEDIATE RELEASE July 23, 1973

TREASURY ANNOUNCES ELEMENTAL SULPHUR FROM CANADA IS BEING SOLD AT LESS THAN FAIR VALUE

Assistant Secretary of the Treasury Edward L. Morgan announced that elemental sulphur from Canada is being, or is likely to be, sold at less than fair value within the meaning of the Antidumping Act of 1921, as amended. Notice of this determination will be published in the Federal Register of July 24, 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 decision, dumping duties will be assessed on all entries of elemental sulphur from Canada which have not been appraised and on which dumping margins exist.

A notice of "Withholding of Appraisement" was issued on April 23, 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.

Elemental sulphur produced and sold by Texasgulf Inc. (formerly Texas Gulf Inc.) and Canadian Occidental Petroleum Ltd., is excluded from the withholding of appraisement ordered in this case and this determination of sales at less than fair value since 100 percent of the export sales to the United States by both companies during the period under consideration were examined and the adjusted home market prices of each company were found to be lower than the appropriate purchase price in every instance.

During the two-year period from January 1971 through December 1972, imports of elemental sulphur from Canada were valued at approximately $18.5 million.

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162

EMBARGOED FOR RELEASE UNTIL
2:00 P.M., EDT, JULY 23, 1973

TESTIMONY BY DR. WILLIAM A. JOHNSON
ENERGY ADVISER TO THE DEPUTY SECRETARY OF THE TREASURY
BEFORE THE
SPECIAL JOINT SUBCOMMITTEE OF THE SENATE COMMITTEES
ON INTERIOR AND INSULAR AFFAIRS,
COMMERCE AND PUBLIC WORKS
MONDAY, JULY 23, 1973

Mr. Chairman and Members of the Committee:

I am delighted to appear before you today to discuss the energy needs of the nation. In particular, I plan to focus on the economic benefits of very large crude carriers and the construction of deepwater ports to accommodate these carriers. This issue is covered in my prepared statement. In addition, I will discuss some environmental benefits, which are not contained in the statement. This statement is, incidentally a precis of a larger study done under my direction several months ago. I am submitting it for the record and will only summarize it here.

Introduction

It now appears to many observers that the United States will have to increase significantly its crude oil imports in the near future. Projections of import demand vary widely.

S-254

Those used as the basis of this study have been made by the Interior Department for both the East and Gulf Coasts. (See Tables 1 and 2).

The level of throughput for each region will depend on the locations of new refinery capacity and domestic production of oil and natural gas. Projections for the East Coast range between 0.8 and 6.6 million barrels per day; for the Gulf Coast, between 0 and 14.7 million barrels per day. Future import requirements will be minimized if reserves on the Outer Continental Shelf can be exploited and U.S. production of alternative fuels, such as natural gas, is increased.

The most efficient means of transporting large tonnages of crude oil over long distances is the "supertanker" or very large crude carrier (VLCC). The definition of a VLCC varies. At a minimum, it is capable of hauling in excess of 80,000 to 100,000 DWT of crude oil. Some argue, however, that a more appropriate definition now is a vessel with a capacity in excess of 200,000 DWT. The largest VLCC to date is 477,000 DWT.

Vessels of this size would require deepwater ports*. The Gulf Coast has no natural harbors capable of accommodating this class of tanker, and where suitable depths exist along the East Coast, such as in Maine, Long Island Sound, and Delaware Bay, the development of a deepwater port has been

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* A port capable of handling 250,000 DWT tankers must have a minimum depth of about 75 feet. With restricted draft it is possible, however, to operate with lower depths depending on vessel design and height of the tide.

163

Table 1

EAST COAST IMPORTS THROUGH DEEPWATER PORTS
(thousands of barrels per day)

	1975	1980	1985	2000
Case I	765	1,135	1,572	2,500
Case II	765	3,505	5,106	6,600
Case III	765	1,135	1,572	2,500
Case IV	765	2,000	1,200	3,200
Case V	765	1,000	600	800

Table 2

GULF COAST IMPORTS THROUGH DEEPWATER PORTS
(thousands of barrels per day)

	1975	1980	1985	2000
Case I	1,573	1,805	3,248	10,900
Case II	1,573	1,805	3,248	10,600
Case III	1,573	4,175	6,782	14,700
Case IV	1,573	400	- 0 -	- 0 -
Case V	1,573	1,400	600	2,400

144

impeded by state governments and is likely to encounter strong opposition from environmentalists. Yet, if the United States is to receive VLCCs, it must build these ports.

The purpose of this document is, first, to determine whether, given cost considerations alone, it would benefit the nation to have one or several of these ports along the East and Gulf Coasts. To do this, we must have a basis for comparison. Deepwater ports now exist, are being constructed, or have been proposed in the Canadian maritime provinces, the Yucatan Peninsula, the Bahamas, Haiti, Puerto Rico, and the Virgin Islands.* In the absence of an East or Gulf Coast deepwater port, oil shipments from relatively distant sources, such as the Persian Gulf, are likely to be carried by VLCCs to one of these sites and then transhipped by smaller tankers to the United States. We have assumed, therefore, that the benefits of a U.S. deepwater port will be the savings likely to result if, instead, crude oil were shipped to a U.S. port by supertanker and then transferred to mainland refineries by pipeline, tug-barge, or smaller tanker. If these savings are positive, a case could be made that a U.S. deepwater port is economically justified.

A second objective of the study is to determine which of several alternative technologies for building a U.S. deepwater port and transferring oil to the mainland are most desirable given cost considerations alone. Three basic port

* Because of its restricted draft, some experts question whether the Virgin Islands port can, properly, be called a deepwater port. Several of these port schemes are also thought not to be serious proposals by knowledgeable observers.

technologies exist: the monobuoy; the sea island; and the artificial island*. There are also three alternative technologies for transferring the imported crude oil to mainland refineries: pipeline, tug-barge and small tanker. Which technology or combination of technologies is most economic will depend on the relative costs of each alternative.

Finally, the study estimates the additional costs of various environmental safeguards thought necessary to prevent, contain, or clean up oil spills. In this way, it determines whether these increased costs could affect the choice of a location or technology for a U.S. deepwater port, particularly if the safeguards required by the U.S. Government are not required by foreign governments.

Methods of Analysis

The basic method of analysis used in this study is a comparison of all costs of landing a given amount of crude oil at East and Gulf Coast refineries through U.S. and foreign deepwater ports. Because throughput is held constant, savings in costs can be treated as a rough measure of benefits. Of course, a number of other factors, such as environmental considerations and national security, will have a bearing on

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* A monobuoy is also called a single point mooring or single buoy mooring. As its name implies, it is a mooring facility at which the tanker can connect with pipelines distributing oil to mainland storage facilities and refineries. The term "sea island" is often used interchangably with the term "platform", although the two are by no means synonymous. The sea island assumed in this study is a platform connected by pipeline to the mainland storage areas. Discharge of oil may also occur by ship-to-ship transfer at the platform. An artificial island is a man-made island built up with fill. Aside from its construction, it differs from a sea island primarily in that storage facilities would be located on the island and not on the shore.

whether a U.S. deepwater port would be beneficial and should be built. Our study measures only the economic benefits of a superport.

We divide our analysis into four "modules". The first three are sequential: the supertanker, the deepwater port, and the transfer leg. Crude oil must first be shipped from the origin to the deepwater port. It must then be transferred from the port to the refinery. The fourth module, environmental safeguards, is additive to the first three. On each leg, additional investment, operations, and maintenance costs will be required to meet environmental standards specified by the government.

Originally, we had hoped to include two additional modules: the refinery and post-refinery leg. The refinery costs probably account for the largest share of the total costs of processing imported crude oil. However, within each region, the additional refinery capacity required by greater U.S. consumption of imported crude oil should cost more or less the same regardless of which alternative is chosen or whether a deepwater port is built at all. If so, exclusion of refinery costs should not bias our results.

Exclusion of the post-refinery leg may pose some difficulties. Opinions vary on whether, in a free market, a particular deepwater port location would affect or be affected by the location of refinery capacity. Some feel that a port location would be determined by the refineries' location and the refineries' location by the internal distribution system. Others argue just the opposite. A deepwater port will determine the location of refineries and petrochemical complexes and, in turn, the internal distribution system. In any final analysis, one must consider whether the post-refinery leg does have an impact on the economics of a deepwater port.

Our treatment of capital costs in this study poses at least two difficulties. First, the time required to build and install each capital input varies from 0.5 years to 6 years. Second, the anticipated lifetime of each component also varies from 15 to 99 years. Differences in construction period and lifetimes may have a bearing on which type of facility should be built. These differences must also be taken into account in any estimate of the total costs of a port facility.

Using a 10 percent discount rate, the cost of each capital input are compounded annually to present value during the initial year of operation. The present value for each input is then converted to an equivalent annual cost by dividing by an annuity factor.* This method of handling capital costs is logically identical to the more familiar present value and internal rate of return calculations. However, it has three major advantages. First, the different lifetimes of each capital input can be handled easily without having to make assumptions about the length of service of the deepwater port or the scrap value of its components.

* An annuity is an annual income paid in equal installments for a specified period of time. This income is equivalent when discounted to a fixed initial payment by the investor. The annuity period assumed is the anticipated lifetime of each capital input.

164

Second, equivalent annual cost best meets the primary objective of the study -- to estimate cost differentials for alternative port facilities. The equivalent annual cost is an annualized measure of capital costs; the differences between the equivalent annual costs of two port facilities, the annual cost differential or measure of benefits resulting from the construction of one alternative rather than another.

Operating and maintenance costs can be added directly to the equivalent annual costs of capital inputs. Some O and M costs are associated with each major component of the deepwater. Others are spread over all components. We assume two types of O and M costs: linear and step. A cost is judged to be linear if, within each increment, it increases with throughput. It is judged to be step if it increases only at the beginning of the increment.*

In Table 3, we present a sample print-out summarizing the cumulative equivalent annual costs of all increments required to raise the capacity of a monobuoy off Long Branch, New Jersey, from 0 to 6 million barrels of crude oil per day. This print-out indicates the costs of all four modules The total equivalent annual cost for the Long Branch monobuoy is $368.8 million for 1 mbbl/day throughput. This cost rises to $765.4 million for 2.2 mbbl/day and $2.0 billion for 6 mbbl.

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* Most capital costs are treated as step costs. There are two major exceptions, however: tug-barges and tankers.

Table 3

ESTIMATED COSTS OF A LONG BRANCH MONOBUOY WITH PIPELINE DISTRIBUTION TO EAST COAST REFINERIES
USE OF FOREIGN SUPERTANKERS AND 0 TO 6 MBBL/DAY THROUGHPUT ASSUMED

(thousands of dollars equivalent annual costs)

LONGBRANCH MONOBUOY PIPELINE CODES= 4 29 54 79

FOREIGN TANKERS

THRUPUT	NON ENVIRONMENTAL COSTS				ENVIRONMENTAL COSTS				
	SUPERTANK	PORT	TRANSFER	SUBTOTAL	BARGE DB	TANKER DB	OTHER ENV	SUBTOTAL	TOTAL
0.0+	0.	12839.	15899.	28738.	0.	0.	3017.	3017.	31755.
1.0-	301967.	14593.	18768.	335329.	255.	27821.	5417.	33493.	368821.
1.0+	301967.	20118.	19755.	341840.	255.	27821.	5417.	33493.	375332.
2.2-	659560.	21174.	19806.	700539.	255.	59209.	5417.	64881.	765420.
2.2+	659560.	28329.	21121.	709009.	255.	59202.	5417.	64881.	773890.
3.4-	1017152.	29543.	23737.	1070431.	510.	90597.	5417.	96523.	1166954.
3.4+	1017152.	36697.	25052.	1078900.	510.	90597.	5417.	96523.	1175423.
4.7-	1398584.	37911.	25120.	1461614.	510.	131970.	5417.	137896.	1599510.
4.7+	1398584.	45065.	26435.	1470084.	510.	131970.	5417.	137896.	1607980.
6.0-	1787962.	46279.	29051.	1863292.	764.	165397.	5417.	171578.	2034870.

Table 3, in effect, traces a cost curve for the Long Branch monobuoy. This curve is plotted in Figure 1, along with a similar curve for a sea island located in Nova Scotia and supplying crude oil to the East Coast U.S. market by means of tanker. These cost curves provide the basis for our comparison of alternative deepwater ports. The least cost port facility will have the lowest curve for a given level of throughput.

For the two cases illustrated, the Long Branch monobuoy is clearly optimal for all but the lowest level of throughput. The vertical distance between the curves measures the savings or benefits resulting from relying on the Long Branch rather than the Canadian facility. For example, at 6 mbbl/day, the annual savings made possible by the American port would be about $346 million or about 16¢ per barrel.

This, in brief, is how our analysis of alternative deepwater port facilities is structured. In all, 23 U.S. and three foreign port facilities are considered. (See Table 4). The investment in each of these facilities is converted to equivalent annual cost measures and then added to annual O and M costs. In this way, cost functions are generated for each port over a range of throughputs. Finally, for given levels of throughput, each of the facilities is ranked and the differences in costs between these facilities and the lowest cost alternative are computed.

We should stress at the outset that our choice of locations is illustrative only. We have selected as wide a cross-section of alternative sites as possible where suitable engineering and cost data were available. In the end, the choice of particular locations will depend on the companies, states, and local communities involved, and not a study by the Federal Government.

In the next section, we discuss the many assumptions underlying this study; in the following section, some of its basic conclusions. Finally, in the last section, we estimate the benefits (or losses) likely to result from reliance on the least cost U.S. superport rather than its least cost foreign alternative.

Basic Assumptions

We have had to make a number of assumptions. In several cases, we have been able to test the sensitivity of our analysis to these assumptions; in most cases, however, we have not. Throughout, we have tried to make these assumptions as realistic as possible. In this section, we also try to make them as explicit as possible.

1. The Locations of U.S. and Foreign Superports. As we have indicated in Table 4, we examine seven locations on the East and Gulf Coasts and two locations abroad. Additional U.S. sites have been suggested, particularly along the Gulf Coast. Additional foreign sites have also been suggested including Mexico, Puerto Rico, and New Brunswick, Canada. For our purposes, the sites selected are more than ample. They cover the general areas likely to be chosen as locations for deepwater port facilities. However, because some potential

168

sites have been omitted, our study cannot and should not be considered the definitive answer to where a deepwater port ought to be located. Specific site studies would be necessary before making such a determination.

2. Choice of the Base Cases. We have chosen as a basis for comparison deepwater ports in the Canso Straits in Nova Scotia, and near Freeport in the Bahamas. These ports now exist or are under construction at these sites. None, however, involves crude oil transshipment to the United States. Instead, these ports are intended, for the most part, to handle imported crude refined nearby to supply certain finished products to U.S. markets. The hypothetical foreign superports assumed in this study would allow transfer of large tonnages of oil destined for the United States from supertankers to smaller vessels. These vessels would then enter existing U.S. ports.

There are alternative bases for comparison. For example, the supertanker might discharge its crude by lightering at sea. We have not chosen this alternative, among other reasons, because it is generally thought to be environmentally unsound. Some feel that the base case should be continued use of regular port facilities and tankers averaging, let us say, 40,000 DWT. The problem with this option, however, is that the economic benefits of the larger tankers have been demonstrated and, for this reason, both supertankers and foreign deepwater ports are now being built. It seems unlikely that, once they are completed, the domination of smaller tankers on longer runs would continue.

The base case chosen is not ideal. However, all things considered, it appears to be the most realistic choice possible.

3. The Choice of Technologies for the Deepwater Ports. We assume one of three port technologies.

a. Monobuoy. The monobuoy is an offshore mooring connected to mainland storage facilities by a pipeline. It would not have the protection of a breakwater and the supertanker would be free to rotate around the buoy. The monobuoy is the simplest and cheapest of the three alternatives.

b. Sea Island. The sea island would be fastened by piles to the ocean floor. The sea island is, in each case studied, protected by a natural breakwater. The supertanker would be tethered on one side at both the bow and stern. The crude oil would then be transferred from the tanker to storage facilities on shore by means of one or more pipelines.

c. Artificial Island. An island would be constructed with fill and protected by a natural or man-made breakwater. The primary function of the island, over and above that of a sea island or monobuoy, would be to house storage facilities. Transfer to the mainland could occur by pipeline, tug-barge, or small tanker. The artificial island is the most elaborate and, generally, the most costly of the three alternatives.

169

Not all technological alternatives are assumed at each site. We have excluded those alternatives for both American and foreign ports that, in its judgment, are not feasible from an engineering point of view. The technologies assumed at each site are also listed in Table 4.

4. Sources of Imported Crude Oil. We assume that all crude oil shipped through East and Gulf Coast deepwater ports will come from the Persian Gulf. This may seem an extreme assumption. However, in terms of reserves, the Persian Gulf easily outranks all other producing areas. Although some oil imports may also come from Libya, Nigeria, and Venezuela, the source of most new oil imports will be the Persian Gulf fields.*

Moreover, not all imported crude oil will be shipped to the United States in VLCCs and through deepwater ports. The economics of the supertanker will depend, among other things, on the length of the haul. This fact, alone, rules out use of the supertanker to carry Venezuelan oil. Imports from Venezuela, and possibly Libya and Nigeria, will still be carried by smaller tankers through conventional port facilities. There is provision in our estimates of throughput for some imports of crude oil by other than supertankers and through other than deepwater ports.

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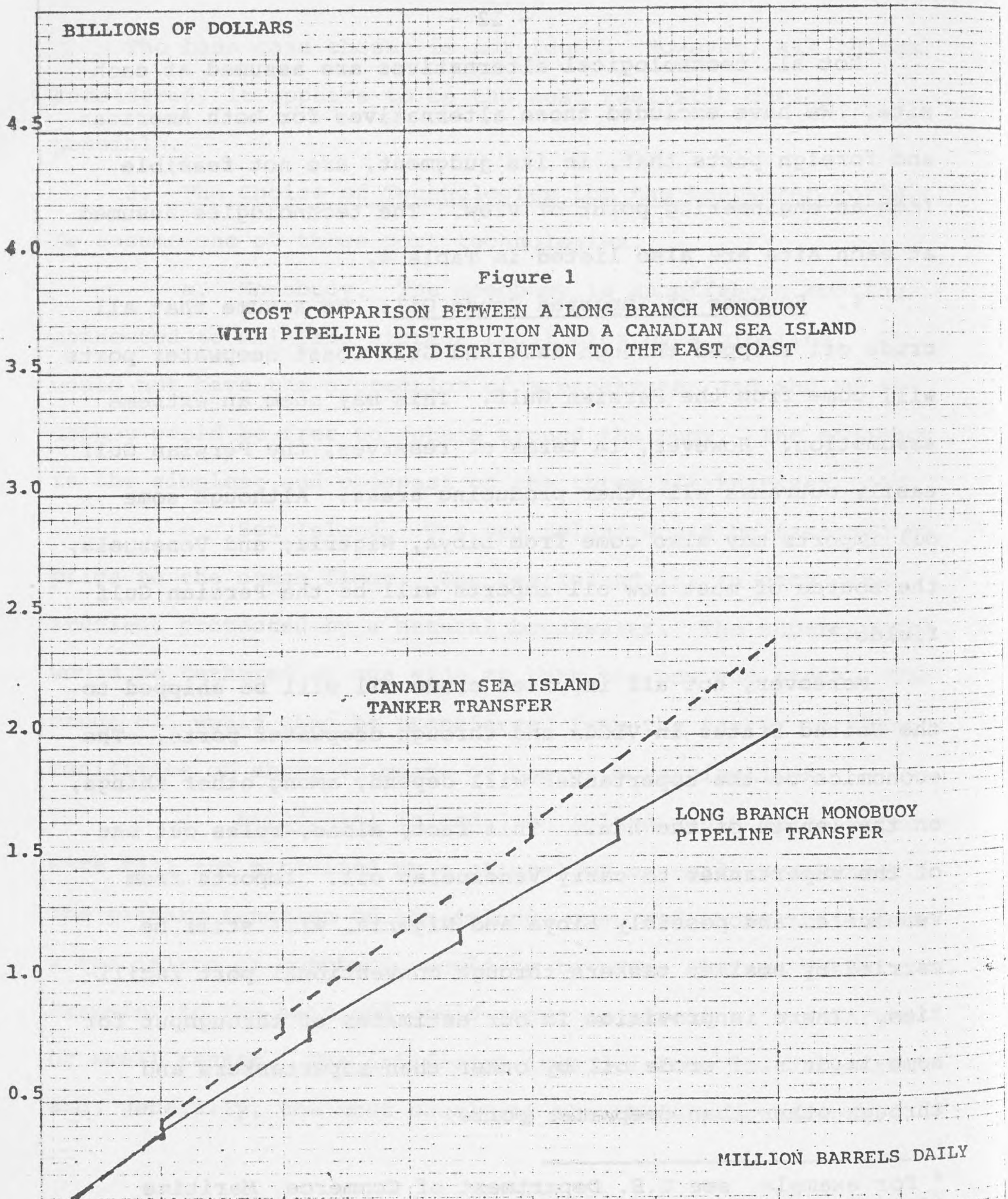
* For example, see U.S. Department of Commerce, Maritime Administration, Feasibility of a North Atlantic Deepwater Oil Terminal, Soros Associates, July, 1972. pp. 8-11.

Figure 1

COST COMPARISON BETWEEN A LONG BRANCH MONOBUOY WITH PIPELINE DISTRIBUTION AND A CANADIAN SEA ISLAND TANKER DISTRIBUTION TO THE EAST COAST



170

One might also consider oil shipments via VLCC from the eastern Mediterranean. These shipments would carry both Libyan and Persian Gulf oil, the latter transported to the eastern Mediterranean by means of pipeline. Because of political instability in the Middle East, the vulnerability of the pipeline, and the policies of the present Libyan regime, it now seems highly unlikely that the United States would find it possible to rely heavily on this source of foreign oil. We have, therefore, chosen to ignore this alternative.

5. The Level of Throughput at U.S. Deepwater Ports. Because the study estimates the costs of each alternative at various levels of throughput, it is important to know the range of throughput over which one must carry the analysis. For all East Coast and one Gulf Coast port, we assume 0 to 6 million barrels per day; for the remaining Gulf Coast port, 0 to 10 million barrels. These estimates are based on throughput projections discussed in the first section.

The level of throughput is increased segmentally for each deepwater port. The size of each segment was determined by the Army Corps of Engineers to be consistent with best engineering practice. In general, four or five discrete steps are required to reach an ultimate throughput of 6 million barrels per day.

Table 4

PORT AND TRANSFER TECHNOLOGIES FOR SUPERPORT SITES

Machias	Sea Island (Platform) - Tug Barge
Raritan Bay	Sea Island (Platform) - Pipeline Sea Island (Platform) - Tug Barge Island - Pipeline Island - Tug Barge
Long Branch	Island - Tug Barge Island - Pipeline Monobuoy - Pipeline Monobuoy - Tug Barge
Cape May	Sea Island (Platform) - Pipeline Island - Tug Barge Island - Pipeline Sea Island (platform) - Tug Barge
Cape Henlopen	Monobuoy - Pipeline Monobuoy - Tug Barge Island - Pipeline Island - Tug Barge
Bayou LaFourche	Island - Pipeline Island - Tug Barge Monobuoy - Tug Barge Monobuoy - Pipeline
Freeport	Monobuoy - Pipeline Monobuoy - Tug Barge
Nova Scotia	Sea Island (Platform) - Tanker 1. Distribution to East Coast Refineries
Bahamas	Sea Island (Platform) - Tanker 1. Distribution to East Coast Refineries 2. Distribution to Gulf Coast Refineries

171

6. <u>The Size, Type, and Number of Supertankers</u>. We also assure throughout a 250,000 DWT supertanker.

Since choosing 250,000 DWT, Shell Oil has announced contracts for two 520,000 ton tankers and trade journals have begun discussing the possibility of one million ton tankers in the not too distant future. The 250,000 ton tanker may, by 1980 or 1985, be as outdated as the 20,000 ton tanker is now.

To assume a larger supertanker would require considerable reworking of the data. For our purposes, however, it is sufficient to note that the larger the tanker, the more likely that those deepwater port alternatives relatively close to the shore (i.e., sea islands and artificial islands) would be placed at a greater cost disadvantage. Much would depend in the amount of dredging and the length of berths required to accommodate the larger tankers at the various port sites. By contrast, because the monobuoys are further out at sea, their costs should be less affected by changes in tanker size.*

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* Some observers believe it is possible to design larger tankers with minimal addition to draft. If so, use of larger tankers may not affect appreciably the relative costs of deepwater ports close to the shore. However, the reduced draft may be achieved at still another price, less efficient handling of the vessel.

We have computed costs for both U.S. and foreign flag supertankers. The choice of flag is critical to the study of the economics of U.S. and foreign deepwater ports. Under all assumption, the VLCC is responsible for over 80 percent of the total costs of deepwater port operations.*

The equivalent annual cost of a foreign vessel is about 60 percent that of a domestic vessel. Clearly, anything that influences the relative costs of VLCCs will influence the relative costs of deepwater port operations.

We also assume two types of tanker construction: conventional and double bottoms. Double bottoms are considered by EPA and CEQ to be among the most important environmental safeguards necessary to assure reasonable protection against major oil spills. We treat the cost of double bottoms as additive. In this way, we are able to estimate whether a U.S. requirement that supertankers have double bottoms, which is not imposed by Canada or the Bahamas, might put U.S. deepwater ports at a significant cost disadvantage.**

Finally, we must estimate the number of supertankers required for each level of throughput, each deepwater port, and each technology. This number varies with both level of

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* For the example of the Long Branch monobuoy, see Table 3.

** In estimating the higher costs of double bottoms we not only consider the higher construction costs, but also the lower carriage capacity of double bottom vessels having the same dimensions as conventional vessels.

imports and distance. It also varies with weather conditions and the existence of natural or manmade breakwaters at each site. For example, for a certain number days monobuoys in the Atlantic may be inoperable because of the weather. Supertankers would have to stand-off before being able to moore and discharge their cargoes. By contrast, protected sea islands and artificial islands along the Atlantic Coast would have a greater all-weather capability and would, for this reason, allow more efficient use of VLCCs. This cost differential should be considered in our analysis of alternative port sites and technologies.

7. Assumptions about the Weather. The treatment of weather was, perhaps, the most difficult issue considered in the study. Originally, we assumed a weather differential which we then expressed in terms of less efficient use of VLCCs serving both Atlantic and Gulf Coast monobuoys. (All sea islands and artificial islands would be protected by natural or man-made breakwaters; monobuoys would not.) This assumption did not affect, appreciably, the relative costs of the East Coast alternatives; sea islands and artificial islands in New York Harbor and Delaware Bay are favored by extreme assumptions about weather differentials in the Atlantic. The monobuoy alternatives are favored by the absence of weather differentials.

Disagreement with our initial treatment of the weather differential stemmed, in part, from objections to our implicit assumption that monobuoy practices would continue with little improvment in the near future. In fact, monobuoy operations are relatively recent and have been evolving rapidly. There is a consensus in the industry that, as experience in the use of monobuoys grows, technology will improve to the point where downtime because of weather will be minimized. If so, the monobuoys would suffer little, if any, disadvantage because of adverse weather conditions. Second, the primary constraint imposed by weather is not in the discharging of oil in high seas, but in the tanker's mooring at the monobuoys. In most conditions of weather, it would be possible for pumping to occur as long as there were a break in the weather sufficient to allow mooring. Third, the problem is essentially one of queueing. Adverse weather would result in a line-up of tankers at the monobuoy. Work by EPA suggests that the size of the queue and, hence, waiting time could be reduced substantially by the simple and relatively inexpensive expedient of adding one additional monobuoy. Finally, the island, too, may be inoperable during bad weather if the tugs needed to assist tankers to their berths are unable to put to sea.

For these reasons, we also estimate the costs of the various alternatives assuming no weather differential at a given location. This assumption, in effect, sets a lower as well as an upper boundary to the impact of weather conditions on the choice of deepwater port locations and technologies. For the most part, we restrict ourselves in this paper to the second case only. We assume no weather differential at each port site.

8. The Discount Rate. We use throughout a discount rate of 10 percent. This, we feel, is a realistic measure of the value of capital in the United States. It is also the standard now used by OMB.

Our choice of 10 percent has stirred some controversy. This, it is argued, is much too low and unacceptable to industry given the substantial risks involved in constructing a deepwater port. What are these risks? For one, recent changes in U.S. oil import policies may result in a reduced need for imports beyond, let us say, 1980 or 1985. Or, there may be changes in policies affecting other energy sources, such as natural gas, that increase the consumption of these sources and, because of this, decrease import demand for crude oil. In each case, the risks involve, primarily, the useful or economic lifetime of the deepwater port facility. We account for these risks by varying the lifetime of the facility to determine whether, in fact, this would result in different port sites and technologies providing the least cost means of importing Middle Eastern crude oil. In effect, therefore, 10 percent represents a risk-free rate of return on investment.

9. The Lifetime of the Facility. We assume, first, that each capital input would be used for its full physical lifetime. We then assume maximum economic lifetimes of 20 and 10 years in the expectation that the port would be used only for a finite number of years, after which alternative sources of fuel or energy would come into being and terminate a substantial U.S. requirement for imported oil. However, we exclude from this constraint capital inputs that are not committed to the port itself, but would have alternative uses were the port to cease operations. These inputs are assigned their full physical lifetimes throughout. The most important are supertankers.

Imposition of a 20-year lifetime on non-reusable capital inputs yields results little different from our initial assumption of full physical lifetime. However, imposition of a 10-year economic lifetime does result in some change in our conclusions. As a general rule, the shorter the lifetime, the more the monobuoy and tug barge mode of transfer are favored over the islands and pipeline transfer. In any event, the cost differentials are not that great. For our purposes, we can assume full physical lifetime. Alternative computations are available, however, for those who would prefer a different assumption.

10. The Location of New Refinery Capacity. The destinations to which throughput is transferred will depend on the location of new refinery capacity. In the absence of any guidelines, we have assumed that the geographic dispersion of East and Gulf Coast refineries will, in the future, be the same as the dispersion at present. On the East Coast, this means transshipment of large amounts of crude oil to New York and the Upper Delaware Bay and a small amount of crude oil to the New York River. On the Gulf Coast, this means transshipment to the many refineries located on or near the Gulf of Mexico. The percentages of throughput assumed to be distributed to each refinery site on each coast are presented in Table 5.

Some have disagreed with this choice of locations of future demand for crude oil. Where demand will be located in the year 2000 is anyone's guess. Some dispersion of refinery capacity, particularly on the east coast, now seems likely.

11. The Choice of Technology for the Transfer Leg. We also assume three means of transferring the crude oil from the deepwater port to refineries: pipeline, tug-barge, and small tanker. In no case is a pure transfer technology assumed. On the East Coast, for example, the imported crude oil may be pumped ashore by pipeline and then transshipped by

Table 5

THE ASSUMED DISTRIBUTION OF CRUDE OIL TO VARIOUS REFINERY SITES

East Coast

Percentage to:

Yorktown	4.0
New York	26.0
Wilmington	70.0

Gulf Coast

Percentage to:

New Orleans	15.0
Baton Rouge	8.9
Lake Charles	6.4
Pascagoula	5.8
Houston	19.7
Beaumont	26.7
Corpus Christi	6.3
Texas City	9.4
Freeport	1.8

175

tug-barge to a refinery. Pipeline transshipment would be used only if there is sufficient throughput. This is not the case for the York River refinery which, it is assumed, would under all circumstances receive its crude oil via tug-barge or tanker.*

We were also faced with a choice between tug-barges and small tankers. An examination of costs suggested that, for short hauls close to the shore, tug-barges provide much the more efficient alternative. For relatively long hauls, however, the opposite is the case. The reason for this is that the higher costs of tankers are then nullified by the greater speeds obtained on the open seas. The breakeven point appears to occur at about 1000 miles round trip. Therefore, to simplify our analysis, we assume that tug-barges would be used for transfer from a U.S. deepwater port while tankers would be used for transfer from a foreign deep-water port to U.S. refineries.

We assume throughout that the tug-barge and tanker would have a 40,000 DWT capacity. We also assume both conventional and double bottom tug-barges and tankers. Finally, we assume that tug-barges carrying crude oil to U.S. refineries would be subject to the Jones Act and would, under all circumstances,

* In retrospect, we should have ignored distribution to the York River refinery altogether on the assumption that, were this refinery to depend on foreign crude, it could be accommodated by smaller tankers sailing directly to the York River from origins other than the Persian Gulf.

sail under the U.S. flag, while tankers carrying crude oil from foreign deepwater ports would have an advantage in their ability to sail under a foreign flag.

12. Restriction of Refinery Demand to PADs I and III. We also assume that all imports of crude oil through East Coast deepwater ports will serve PAD I (East Coast) refineries, while all imports through Gulf Coast deepwater ports will serve PAD III (Gulf Coast) refineries. This is an extreme assumption that, in retrospect, we wish we had varied. In practice, some of the crude oil entering the United States through PAD I will be transshipped to other PADs. This is especially true of Gulf Coast ports which would also supply PAD II (the central states) and PAD III refineries.

Our restriction of throughput to the PAD in which the port is located probably does not have that great an impact on the relative costs of East Coast deepwater ports. However, it does bias our results for the Gulf. Under all assumptions about throughput, a monobuoy at Freeport, Texas, appears from our analysis to be a better choice than a monobuoy at Bayou LaFourche, Louisiana. The reason for this is apparent in the data on the distribution of import demand presented in Table 5. Sixty-four percent of the refining of crude oil in PAD III is concentrated in Texas in areas relatively close to the proposed Freeport facility. If, instead, substantial

176

amounts of crude oil were to be imported through a Gulf Coast deepwater port for eventual transshipment to the central or eastern states, the optimal port site would most likely be off the Louisiana coast. In other words, the disadvantage of the Bayou LaFourche site is more apparent than real. It is the result of a simplifying assumption. Here, more than anywhere else, one can see the dangers of using the results of this study as a justification for or against a particular deepwater port site.

13. The Mutual Exclusivity of Port Alternatives. For the most part, we assume that, within each PAD, each port facility would operate to the exclusion of all others. In other words, we assume that each deepwater port on the East Coast would, by itself, supply all East Coast refineries and that each deepwater port on the Gulf Coast would supply all Gulf Coast refineries in the proportions assumed in Table 5.

In the real world, one might expect more than one deepwater port on each coast with some market specialization and resulting economics of operation. This is particularly likely on the Gulf Coast where both projected imports and dispersion of refineries are considerably greater than on the East Coast. In Section 5 of this report we do, in fact, consider the possibility of two deepwater ports operating simultaneously on the Gulf Coast. To do this we have had to make several adjustments, notably in the transfer module, to take into account the economies likely to result from greater market specialization within the Gulf Coast region.

14. Environmental Controls. EPA has drawn up a list of minimum standards necessary to prevent, contain, and clean up spills resulting from operations at each type of facility. They have also estimated the costs of implementing these requirements from port to port depending on the type of facility and transfer leg used.

For the tanker leg, only one basic safeguard is established, the requirement that tankers using U.S. deepwater ports have double bottoms. For the port module, provision is made for curtains, screens, and other devices for preventing and containing a spill and booms, skimmers, and launches for cleaning up a spill once it occurs. These devices are essentially the same for the sea island and artificial island. Devices for prevention and containment of minor spills are not likely to be effective at a monobuoy and are, therefore, omitted. Environmental safeguards also vary with the type of transfer leg assumed. Double bottoms are required for tug-barges and small tankers. Also, for both vessels, provision is made for prevention, containment, and clean up of spills at the refinery end of the transfer leg. Provision is also made for storing the dirty ballast generated by tug-barges and tankers either on the island or at on-shore storage facilities. The pipelines at sea are assumed to be buried to EPA specifications and to be equipped with bleeder and block valving systems.

In all instances, we have tried to estimate the incremental cost of environmental safeguards. This has not been easy and, in at least one instance, storage tanks for receiving dirty ballast, it would appear that the Army Corps data on port module costs and the EPA data on environmental costs overlap to some extent.

One major environmental cost is excluded because it is unpredictable. This is the cost of damage to adjacent property because of spillage. The amount of these costs will depend, among other things, on probability of occurrence, currents, weather conditions, and value of the property, and is impossible, at least within the time frame of our study, to predict with any accuracy for each of the alternatives.

SOME GENERAL CONCLUSIONS OF THE STUDY

In this section we outline the more important conclusions of this study.

1. Under most circumstances, the construction of a U.S. deepwater port would result in significant savings to the United States. The dollar amounts of these savings are estimated in the next section. It is sufficient to note here that the amount of these savings per barrel tends to increase with throughput. However, the cost advantage of a U.S. deepwater port disappears at very low levels of throughput and when vessels serving a U.S. port are required to have double bottoms while vessels serving a foreign port are not. Even under the worst case, however, the differential between the least cost U.S. and foreign port is small.

2. There is a major exception to this first conclusion, however, when U.S. flag is required for tankers docking at U.S. ports while foreign flag is permitted for tankers docking at foreign ports. The flag of the vessels could be the decisive factor in a private decision to opt for a foreign deepwater port. For example, comparing the Long Branch monobuoy with a Canadian sea island and assuming a 6 mbbl/day throughput, use of U.S. VLCCs would convert a 15 percent cost advantage for the U.S. port* into an 18 percent cost disadvantage.**

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* See Figure 1.

** This assumes that crude oil must also be transshipped from Canadian to U.S. ports by U.S. flag tanker. Legislation requiring use of U.S. tankers for 50 percent of oil imports was narrowly defeated by the last Congress. The same legislation has been introduced again in this Congress. Our results suggest that the effect of such legislation may well be to drive oil importers away from both U.S. tankers and U.S. deepwater ports.

Table 6

SAVINGS RESULTING FROM AN EAST COAST U.S. DEEPWATER PORT
(cents per barrel)

Throughput (mbbl/day)	Worst Case*	Best Case **
0.600	-4.0	3.3
0.800	-1.6	5.7
1.000	-0.2	7.2
1.135	0.4	7.8
1.200	1.0	8.4
1.572	3.2	10.5
2.000	5.3	12.7
2.500	6.6	14.0
3.200	7.4	14.8
5.106	8.1	15.5
6.600	9.1	16.5

SOURCE: Tables 1.1, 2.1, 3.1, 4.1, and 5.1 in the Statistical Appendix. Cost projections above 6 mbbl/day have been based on linear extrapolation of cost functions estimated by simple regression analysis.

* Tankers serving U.S. deepwater ports are required to have double bottoms while tankers serving foreign ports are not.

** For the most part, tankers serving both U.S. and foreign ports are required to have double bottoms.

Table 7

SAVINGS RESULTING FROM A GULF COAST U.S. DEEPWATER PORT
(cents per barrel)

Throughput (mbbl/day)	Worst Case *	Best Case **
0.600***	-14.2	-4.7
1.400***	- 0.4	2.7
1.805	- 3.6	3.8
2.400***	0.1	8.4
3.248	4.0	11.5
4.175	4.6	12.0
6.782	7.7	14.9
10.600	10.0	17.1
10.900	10.1	17.2
14.700	11.1	18.2

SOURCE: Tables 1.2, 2.2, 3.2, and 5.2 in the Statistical Appendix. Cost projections above 10 mbbl/day are based on linear extrapolation of cost functions estimated by simple regression analysis.

* Same as in Table 6.
** Same as in Table 6.
***Tug-barge distribution of crude oil assumed.

179

3. The reason for this is that, by far, the most important component of total costs is the tanker module. As a result, any factor affecting supertanker costs tends to drive the results of the study. The least cost alternative is of ten that which permits the most efficient use of VLCCs.

4. The environmental safeguards specified by EPA do not, as a rule, add appreciably to the total costs of oil imports or affect the economics of deepwater port alternatives. A partial exception occurs when supertankers are equipped with double bottoms. Double bottoms account for over 90 percent of total environmental costs and, when required at U.S. but not foreign deepwater ports, reduce considerably the savings to the United States likely to result from a U.S. deepwater port.*

5. With one major exception, pipeline distribution provides the least cost means of transferring crude oil from deepwater ports to refineries. Moreover the greater the throughput, the greater the economic benefits from pipeline distribution. The exception is the Gulf Coast port handling less than two million barrels per day. In this case, tug-barge distribution would permit slightly lower total costs. This exception results from the greater dispersion of crude oil demand on the Gulf Coast. In general, the more concentrated this demand, as on the East Coast, the more efficient is pipeline distribution.

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* Estimates of this reduction in savings are presented in the next section and the statistical appendix at the end of this paper.

6. For the most part, the least cost East Coast alternative is a Long Branch monobuoy with pipeline distribution to refineries. East Coast alternatives that also show well in our analysis are the Cape May sea island and island, the Raritan Bay sea island and island, and the Cape Henlopen monobuoy, all with pipeline distribution to refineries. In each case, however, the differences in costs are not particularly large. The second best East Coast alternative, the Cape May sea island, typically adds about a penny to the cost of a barrel of crude oil for most levels of throughput, whereas the maximum differential for these sites is no more than 4 cents per barrel. Our analysis suggests, in other words, that factors other than costs are likely to be the dominant considerations in the choice between the six East Coast locations.

7. The Long Branch monobuoy ceases to be the least cost alternative when extreme assumptions are made about the effect of weather conditions on the operations of an East Coast deepwater port. In this case, the Cape May sea island, which is naturally protected, tends to be the least cost alternative. However, the cost advantage on the Cape May sea island, relative to the Long Branch monobuoy, is only 2 to 3 cents per barrel for all levels of throughput. Even under the worst possible conditions for the Long Branch monobuoy, the monobuoy still proves to be, in the terms of costs at least, a reasonably attractive alternative.

180

8. By contrast, the monobuoys are clearly preferable in the Gulf of Mexico for all levels of throughput and under all assumptions about weather and tanker utilization. Moreover, the savings resulting from construction of a monobuoy rather than an island are considerably greater, varying between 5.5 and 10 cents per barrel. Of the two monobuoys in the Gulf, our analysis suggests that the Freeport site is to be preferred. However, for reasons given in Sections 3, this apparent advantage is more the result of assumptions about the distribution of imported crude oil than any inherent defects of the Bayou LaFourche site. Under real world assumptions both would be advantageous as monobuoy sites. Indeed, there are now serious proposals by industry to build monobuoy systems at both locations.

9. The reason why the sea islands and islands are relatively more competitive in the Atlantic than in the Gulf is that the Delaware and Raritan Bays are well-suited for island construction while the Gulf is not. Both East Coast sites are protected. Neither requires a breakwater, one of the more expensive elements of sea island and island construction. There has been industry interest in a sea island in Delaware Bay. One reason for this may be the impact of the weather on alternative port sites and technologies. However, the industry may also anticipate the federal government's assumption of one of the major costs of sea island construction,

dredging. Dredging would not be necessary for the monobuoy alternatives.

10. In summary, the study favors the monobuoy facilities in both the Gulf and the Atlantic, although in the Atlantic several alternatives to monobuoys would provide nearly the same level of benefits. In both regions, however, the construction of U.S. deepwater ports would, under most conceivable circumstances, result in considerable savings than if imported crude oil were to enter the United States through foreign deepwater ports.

181

SAVINGS RESULTING FROM A U.S. DEEPWATER PORT

In this last section, we estimate the savings likely to result from U.S. construction of one or more deepwater ports. To do so, we compare the costs of the three foreign ports with the costs of the least cost U.S. alternatives.

For the East Coast, the comparison is reasonably straightforward. The highest anticipated level of throughput, 6.6 mbbl/day, and the concentration of demand on the East Coast would justify no more than one or two port facilities. We have, for this reason, assumed one facility -- a Long Branch monobuoy system with pipeline distribution to refineries -- for all levels of throughput. We also estimate the savings for the second best U.S. alternative -- a sea island inside Delaware Bay near Cape May with pipeline distribution to refineries.

The Gulf Coast is more complex. Here, the maximum level of throughput and dispersion of demand would, most likely, justify several facilities located along the Coast. We have, for this reason, assumed a pair of monobuoy systems, each serving a part of the Gulf Coast market, as well as single monobuoy systems at Freeport and Bayou LaFourche serving the entire Gulf Coast market. To measure the costs of the Freeport and Bayou LaFourche systems combined, we must make some rough adjustments in the transfer module;

regional specialization within the Gulf Coast market would permit economies in distributing imported crude oil from the deepwater port to refineries. There is a trade-off, however, between these economies and the additional costs resulting from the duplication of port facilities. For the Gulf Coast we also assume different transfer technologies depending on the level of throughput. For cases involving relatively high levels of crude oil imports, we assume pipeline distribution to markets. For relatively low levels of throughput, we assume tug-barge distribution.

The total cost of each facility, as well as the cost differential of each facility relative to the least cost U.S. facility, are presented in Tables 1.1 through 5.2 in the Statistical Appendix. Each table represents a case considered by the Department of Interior in making its throughput projections. Table 1.1 presents the cost data for East Coast throughput under Case I; Table 1.2, for Gulf Coast throughput under Case I. Similarly, Table 2.1 presents East Case throughput under Case II; Table 2.2, Gulf Coast throughput under Case II. In one instance, Case IV, the level of throughput for the Gulf Coast is too small and of too short a duration to justify building a deepwater port. We have, for this reason, omitted Table 4.2.*

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* With one exception, we assume the same technologies throughout. The exception is Case V for the Gulf Coast (Table 5.2). Here, because the level of throughput is rather small for the entire lifetime of the monobuoy system, we assume tug-barge distribution of product and exclude the Freeport and Bayou LaFourche facilities combined.

1 82

Several conclusions can be drawn from these data.

1. In most cases, the U.S. deepwater ports result in significant cost savings. The exceptions occur only at very low levels of throughput and, at the same time, where VLCCs serving U.S. ports are required to have double bottoms, while tankers serving foreign ports are not.

2. The cost savings for various levels of throughput are converted to cents per barrel and summarized in Tables 6 and 7. It is clear from the data presented in these tables that these savings increase significantly with throughput. There are, in other words, substantial economies of scale from using a U.S. deepwater port.

3. In general, the Long Branch monobuoy with pipeline distribution to refineries would, in all cases and at all levels of throughput, provide the least cost alternative on the East Coast. Assuming full environmental safeguards at both U.S. and foreign ports, the cost savings resulting from the Long Branch monobuoy would range between 3.3¢ per barrel for 0.6 mbb/day and 16.5¢ per barrel for 6.6 mbbl/day. Only at throughput levels considerably below 0.6 mbbl would the Long Branch monobuoy be at a cost disadvantage relative to a foreign port.

4. By contrast, the Gulf Coast offers an array of "best" alternatives. For low levels of throughput (less than one m bbl), it would not pay to build a U.S. deepwater

port. For higher levels of throughput (between one and two mbbl), it would pay to build one Gulf Coast monobuoy system with tug-barge distribution to refineries.

At still higher levels of throughput (between 2 and 5 mbbl) it would pay to build one monobuoy system with pipeline distribution. Finally, at the highest levels of throughput (above 6 mbbl), a combination of monobuoy systems with pipeline distribution to mainland refineries would provide the least cost option. For the levels of throughput considered, savings under the best of assumptions would range between 2.7¢ per barrel for 1.4 mbbl/day and 18.2¢ per barrel for 14.7 mbbl/day. The only instance in which a Gulf Coast deepwater port facility might not be built on the basis of costs, aside from Case IV, is Case V. Here the savings are small throughout and, for much of the monobuoy's lifetime, may even be negative.

5. A major determinant of what type of deepwater port should be built, and even whether a U.S. deepwater port should be built at all, will be the level of throughput for much of the facility's anticipated lifetime. This finding underlines the importance of accurate demand projections from the start. Because the principal variants in these projections are assumptions about changes in U.S. government policies concerning the pricing of natural gas and the exploitation of the outer continental shelf, this also

183

indicates the importance of firm decisions on these issues being made by the government as soon as possible.

6. In any event, the penalties from building a deepwater port under false assumptions about throughout are generally not that great, even in the Gulf Coast region, while the rewards could be substantial. In short, our analysis suggests that, on the basis of costs, an argument can be made for building deepwater port facilities on both the East and Gulf Coasts.

STATISTICAL APPENDIX

Table 1.1

CASE I: EQUIVALENT ANNUAL COSTS OF DEEPWATER PORTS SERVING THE EAST COAST MARKET

(millions of dollars)

Throughput/Facility	No Environmental Safeguards		Safeguards in U.S. Only		Safeguards at Foreign Ports Also	
	Total Cost per Year	Differential	Total Cost per Year	Differential	Total Cost per Year	Differential
1.135 mbbl. crude/day						
Long Branch, monobuoy, pipeline	382.2	-	419.2	-	419.2	-
Cape May, sea island, pipeline	390.9	8.7	432.2	13.0	432.2	13.0
Canada, sea island, tanker	410.8	28.6	420.9	1.7	451.4	32.2
Bahamas, sea island, tanker	417.1	34.9	424.4	5.2	454.9	35.7
1.572 mbbl. crude/day						
Long Branch, monobuoy, pipeline	514.9	-	563.5	-	563.5	-
Cape May, sea island, pipeline	521.8	6.9	575.7	12.2	575.7	12.2
Canada, sea island, tanker	568.8	53.9	581.6	18.1	624.7	60.5
Bahamas, sea island, tanker	578.2	63.3	588.5	24.9	630.9	67.3
2.500 mbbl. crude/day						
Long Branch, monobuoy, pipeline	799.4	-	872.2	-	872.2	-
Cape May, sea island, pipeline	813.0	13.6	893.2	21.0	893.2	21.0
Canada, sea island, tanker	913.7	114.4	932.5	60.3	1000.0	127.9
Bahamas, sea island, tanker	926.9	127.5	944.2	72.1	1011.8	139.7

Table 1.2

CASE I: EQUIVALENT ANNUAL COSTS OF DEEPWATER PORTS SERVING THE GULF COAST MARKET

(millions of dollars)

Throughput/Facility	No Environmental Safeguards		Safeguards in U.S. Only		Safeguards at Foreign Ports Also	
	Total Cost per Year	Differ-ential	Total Cost per Year	Differ-ential	Total Cost per Year	Differ-ential
1.805 mbbl. crude/day						
Freeport, monobuoy, pipeline	671.5	-	727.3	-	727.3	-
Bayou LaFourche, monobuoy, pipeline	713.0	41.5	765.0	37.8	765.0	37.8
Freeport-Bayou LaFourche combined	702.8	31.3	765.6	38.3	765.6	38.3
Bahamas, sea island, tanker	686.9	15.4	703.5	-23.8	752.2	24.9
3.248 mbbl. crude/day						
Freeport, monobuoy, pipeline	1137.4	-	1237.2	-	1237.2	-
Bayou LaFourche, monobuoy, pipeline	1175.9	38.5	1270.0	32.8	1270.0	32.8
Freeport-Bayou LaFourche combined	1176.1	38.7	1283.0	45.7	1283.0	45.7
Bahamas, sea island, tanker	1251.0	113.6	1285.3	48.0	1373.1	135.8
10.900 mbbl. crude/day						
Freeport, monobuoy, pipeline	3713.4	74.3	4025.0	42.0	4026.0	42.0
Bayou LaFourche, monobuoy, pipeline	3710.8	71.7	4022.7	43.3	4022.7	43.3
Freeport-Bayou LaFourche combined	3639.1	-	3984.0	-	3984.0	-
Bahamas, sea island, tanker	4259.6	620.5	4386.1	402.1	4670.0	686.0

Table 2.1

CASE II: EQUIVALENT ANNUAL COSTS OF DEEPWATER PORTS SERVING THE EAST COAST MARKET

(millions of dollars)

Throughput/Facility	No Environmental Safeguards		Safeguards in U.S. Only		Safeguards at Foreign Ports Also	
	Total Cost per Year	Differential	Total Cost per Year	Differential	Total Cost per Year	Differential
3.505 mbbl. crude/day						
Long Branch, monobuoy, pipeline	1109.8	-	1209.7	-	1209.7	-
Cape May, sea island, pipeline	1114.4	4.6	1222.4	12.7	1222.4	12.7
Canada, sea island, tanker	1275.0	165.1	1298.8	89.1	1393.6	183.9
Bahamas, sea island, tanker	1293.6	183.8	1318.2	108.5	1412.9	203.3
5.106 mbbl. crude/day						
Long Branch, monobuoy, pipeline	1592.9	-	1741.3	-	1741.3	-
Cape May, sea island, pipeline	1616.0	23.1	1770.2	28.9	1770.2	28.9
Canada, sea island, tanker	1856.4	263.5	1892.6	151.3	2030.6	289.3
Bahamas, sea island, tanker	1891.2	298.3	1927.9	186.6	2061.5	320.2
6.600 mbbl. crude/day						
Long Branch, monobuoy, pipeline	2047.1	-	2239.8	-	2239.8	-
Cape May, sea island, pipeline	2078.1	30.9	2276.0	36.2	2276.0	36.2
Canada, sea island, tanker	2411.5	364.4	2459.6	219.8	2638.0	398.2
Bahamas, sea island, tanker	2457.6	410.4	2506.3	266.5	2678.1	438.3

85

Table 2.2

CASE II: EQUIVALENT ANNUAL COSTS OF DEEPWATER PORTS SERVING THE GULF COAST MARKET

(millions of dollars)

Throughput/Facility	No Environmental Safeguards		Safeguards in U.S. Only		Safeguards at Foreign Ports Also	
	Total Cost per Year	Differ-ential	Total Cost per Year	Differ-ential	Total Cost per Year	Differ-ential
1.805 mbbl. crude/day						
Freeport, monobuoy, pipeline	671.5	-	727.3	-	727.3	-
Bayou LaFourche, monobuoy, pipeline	713.0	41.5	765.0	37.8	765.0	37.8
Freeport-Bayou LaFourche combined	702.8	31.3	765.6	38.3	765.6	38.3
Bahamas, sea island, tanker	686.9	15.4	703.5	-23.8	752.2	24.9
3.248 mbbl. crude/day						
Freeport, monobuoy, pipeline	1137.4	-	1237.2	-	1237.2	-
Bayou LaFourche, monobuoy, pipeline	1175.9	38.5	1270.0	32.8	1270.0	32.8
Freeport-Bayou LaFourche combined	1176.1	38.7	1283.0	45.7	1283.0	45.7
Bahamas, sea island, tanker	1251.0	113.6	1285.3	48.0	1373.1	135.8
10.600 mbbl. crude/day						
Freeport, monobuoy, pipeline	3612.9	70.5	3917.1	39.1	3917.1	39.1
Bayou LaFourche, monobuoy, pipeline	3611.6	69.2	3915.0	37.0	3915.0	37.0
Freeport-Bayou LaFourche combined	3542.4	-	3878.0	-	3878.0	-
Bahamas, sea island, tanker	4141.8	599.4	4264.6	386.6	4540.8	662.8

Table 3.1

CASE III: EQUIVALENT ANNUAL COSTS OF DEEPWATER PORTS SERVING THE EAST COAST MARKET

(millions of dollars)

Throughput/Facility	No Environmental Safeguards		Safeguards in U.S. Only		Safeguards at Foreign Ports Also	
	Total Cost per Year	Differential	Total Cost per Year	Differential	Total Cost per Year	Differential
1.135 mbbl. crude/day						
Long Branch, monobuoy, pipeline	382.2	-	419.2	-	419.2	-
Cape May, sea island, pipeline	390.9	8.7	432.2	13.0	432.2	13.0
Canada, sea island, tanker	410.8	28.6	420.9	1.7	451.4	32.2
Bahamas, sea island, tanker	417.1	34.9	424.4	5.2	454.9	35.7
1.577 mbbl. crude/day						
Long Branch, monobuoy, pipeline	514.9	-	563.5	-	563.5	-
Cape May, sea island, pipeline	521.8	6.9	575.7	12.2	575.7	12.2
Canada, sea island, tanker	568.8	53.9	581.6	18.1	624.7	60.5
Bahamas, sea island, tanker	578.2	63.3	588.5	24.9	630.9	67.3
2.500 mbbl. crude/day						
Long Branch, monobuoy, pipeline	799.4		872.2	-	872.2	-
Cape May, sea island, pipeline	813.0	13.6	893.2	21.0	893.2	21.0
Canada, sea island, tanker	913.7	114.4	932.5	60.3	1000.0	127.0
Bahamas, sea island, tanker	926.9	127.5	944.2	72.1	1011.8	139.7

Table 3.2

CASE III: EQUIVALENT ANNUAL COSTS OF DEEPWATER PORTS SERVING THE GULF COAST MARKET

(millions of dollars)

Throughput/Facility	No Environmental Safeguards		Safeguards in U.S. Only		Safeguards at Foreign Ports Also	
	Total Cost per Year	Differ-ential	Total Cost per Year	Differ-ential	Total Cost per Year	Differ-ential
4.175 mbbl. crude/day						
Freeport, monobuoy, pipeline	1467.6	-	1593.2	-	1593.2	-
Bayou LaFourche, monobuoy, pipeline	1481.3	13.7	1604.7	11.5	1604.7	11.5
Freeport-Bayou LaFourche combined	1479.2	11.6	1604.6	11.4	1604.6	11.4
Bahamas, sea island, tanker	1617.2	149.6	1663.2	70.0	1775.3	182.2
6.782 mbbl. crude/day						
Freeport, monobuoy, pipeline	2333.8	25.7	2531.0	4.0	2531.0	4.0
Bayou LaFourche, monobuoy, pipeline	2354.9	46.8	2548.5	21.5	2548.5	21.5
Freeport-Bayou LaFourche combined	2308.1	-	2527.0	-	2527.0	-
Bahamas, sea island, tanker	2641.9	333.8	2718.5	191.5	2895.6	368.6
14.700 mbbl. crude/day						
Freeport, monobuoy, pipeline	4986.5	123.1	5405.5	77.8	5405.5	77.8
Bayou Lafourche, monobuoy, pipeline	4966.6	103.2	5386.6	58.9	5386.6	58.9
Bayou LaFourche, monobuoy, pipeline	4863.4	-	5327.7	-	5327.7	-
Freeport-Bayou LaFourche combined	5752.9	889.5	5925.1	597.4	6306.7	979.0
Bahamas, sea island, tanker						

Table 4.1

CASE IV: EQUIVALENT ANNUAL COSTS OF DEEPWATER PORTS SERVING THE EAST COAST MARKET

(millions of dollars)

Throughput/Facility	No Environmental Safeguards		Safeguards in U.S. Only		Safeguards at Foreign Ports Also	
	Total Cost per Year	Differ-ential	Total Cost per Year	Differ-ential	Total Cost per Year	Differ-ential
2.000 mbbl. crude/day						
Long Branch, monobuoy, pipeline	640.8	-	700.4	-	700.4	-
Cape May, sea island, pipeline	645.9	5.1	711.8	11.4	711.8	11.4
Canada, sea island, tanker	723.5	82.8	739.0	38.6	793.1	92.7
Bahamas, sea island, tanker	736.1	95.3	749.2	48.8	803.2	102.8
1.200 mbbl. crude/day						
Long Branch, monobuoy, pipeline	401.6	-	440.3	-	440.3	-
Cape May, sea island, pipeline	410.1	8.5	453.2	12.9	453.2	12.9
Canada, sea island, tanker	434.3	24.2	444.8	4.5	477.1	36.7
Bahamas, sea island, tanker	441.1	39.5	448.8	8.5	481.1	40.7
3.200 mbbl. crude/day						
Long Branch, monobuoy, pipeline	1010.2	-	1101.4	-	1101.4	-
Cape May, sea island, pipeline	1022.9	12.7	1122.5	21.0	1122.5	21.0
Canada, sea island, tanker	1165.3	155.1	1187.6	86.2	1274.1	172.7
Bahamas, sea island, tanker	1182.3	172.1	1204.7	103.2	1291.2	189.8

8

Table 5.1

CASE V: EQUIVALENT ANNUAL COSTS OF DEEPWATER PORTS SERVING THE EAST COAST MARKET

(millions of dollars)

Throughput/Facility	No Environmental Safeguards		Safeguards in U.S. Only		Safeguards at Foreign Ports Also	
	Total Cost per Year	Differential	Total Cost per Year	Differential	Total Cost per Year	Differential
1.000 mbbl. crude/day						
Long Branch monobuoy pipeline	335.3	-	368.8	-	368.8	-
Cape May, sea island, pipeline	343.9	8.5	380.3	11.5	380.3	11.5
Canada, sea island, tanker	358.9	23.5	368.1	-0.7	394.9	26.1
Bahamas, sea island, tanker	364.3	29.0	370.7	1.9	397.5	28.7
0.600 mbbl. crude/day						
Long Branch, monobuoy, pipeline	212.7	-	234.0	-	234.0	-
Cape May, sea island, pipeline	220.8	8.1	244.5	10.5	244.5	10.5
Canada, sea island, tanker	219.7	7.0	225.2	-8.8	241.3	7.3
Bahamas, sea island, tanker	222.3	9.6	226.2	-7.8	242.3	8.3
0.800 mbbl. crude/day						
Long Branch, monobuoy, pipeline	274.0	-	301.4	-	301.4	-
Cape May, sea island, pipeline	282.3	8.3	312.4	11.0	312.4	11.0
Canada, sea island, tanker	289.3	15.3	296.7	-4.7	318.1	16.7
Bahamas, sea island, tanker	293.3	19.3	298.5	-2.9	319.9	18.5

Table 5.2

CASE V: EQUIVALENT ANNUAL COSTS OF DEEPWATER PORTS SERVING THE GULF COAST MARKET

(millions of dollars)

Throughput/Facility	No Environmental Safeguards		Safeguards in U.S. Only		Safeguards at Foreign Ports Also	
	Total Cost per Year	Differential	Total Cost per Year	Differential	Total Cost per Year	Differential
1.400 mbbl. crude/day						
Bayou LaFourche, monobuoy, tug barge	512.5	-	563.2	-	563.2	-
Freeport, Monobuoy, tug barge	513.9	1.4	563.7	0.5	563.7	0.5
Bahamas, sea island, tanker	528.5	16.0	541.0	-22.2	576.9	13.7
0.600 mbbl. crude/day						
Bayou LaFourche, monobuoy, tug barge	235.4	-	261.3	-	261.3	-
Freeport, monobuoy, tug barge	227.5	-7.9	251.6	-9.3	251.6	-9.7
Bahamas, sea island, tanker	225.0	-10.4	230.1	-31.2	246.1	-15.2
2.400 mbbl. crude/day						
Bayou LaFourche, monobuoy, tug barge	858.9	-	940.5	-	940.5	-
Freeport, monobuoy, tug barge	867.4	8.5	956.4	15.9	956.4	15.9
Bahamas, sea island, tanker	925.5	66.6	949.5	9.0	1014.4	73.9

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

189

FOR RELEASE AT 10:00 A.M.

STATEMENT OF
MR. RICHARD F. LARSEN, DEPUTY ASSISTANT SECRETARY
FOR DEVELOPING NATIONS FINANCE, DEPARTMENT OF THE TREASURY
BEFORE THE FOREIGN OPERATIONS AND GOVERNMENT
INFORMATION SUBCOMMITTEE OF THE
HOUSE COMMITTEE ON GOVERNMENT OPERATIONS
JULY 24, 1973, at 10:00 A.M.

Mr. Chairman and Members of the Subcommittee, I am pleased to have the opportunity to review with you this morning the progress made since the last hearing in the collection and reporting of delinquent foreign debts owed to our Government. As a relative newcomer to the Treasury Department, it is a privilege for me to participate in what you, Mr. Chairman, once called a "unique partnership" between the Congress and the Executive in this area of foreign debt collection. I fully share your view that the continued existence of arrearages on foreign debts places an unfair burden on the American taxpayer and, at the same time, brings into question the creditworthiness of delinquent foreign governments. Therefore, Mr. Chairman, I can assure you that the Treasury Department will continue giving the same high priority to the matter of foreign debt arrearages as has particularly been the case during the last three years.

In line with your request, I shall first highlight our recent accomplishments, then review the activities of the National Advisory Council and the general debt arrearage situation, and conclude by bringing you up to date regarding the progress we have made in the collection and reporting of data on foreign debts.

Recent Accomplishments

Let me start by highlighting the progress which we have made in the past several months. In terms of actual collection of foreign debts, a number of governments have settled or significantly reduced their obligations to U.S. agencies. For example, under an agreement signed on April 30, the Government of Japan has prepaid in full its obligation stemming from our post-World War II economic assistance to that country.

In the area of debt arrearages, Paraguay and Tunisia have paid the entire principal of their long outstanding indebtedness on foreign military sales. We have reached an agreement with Haiti for the repayment of a post World War II debt resulting from the disposal of surplus property. Brazil has paid the Army over $3 million on a military sales account which was previously reported to be in arrears. The Dominican Republic has paid several million dollars on its accounts due to various agencies and is now current.

190

Although progress in some instances has been less than satisfactory, major claims continue to receive strong consideration. Negotiations to reschedule the various obligations owed by the Chilean Government to the United States and other creditor countries are in progress -- Treasury led the U.S. delegation to the creditors meeting in Paris less than two weeks ago. Our goals and those of the other creditor nations at that meeting were to press the Government of Chile to adopt adequate stabilization policies to enhance our long-range prospects of collecting all debts owed us.

Some recent progress has been made on Iran's lend-lease and surplus property debts. In March, the Iranian Government paid approximately $750,000 on certain accounts, and in May it indicated that it would pay an additional $2 million on its debt. However, differences still remain with regard to the status of some $12 million in delinquent interest. Nevertheless, negotiations continue with the Iranian Government and we are hopeful that an appropriate settlement will soon be reached.

The status of the Chinese post-World War II debt is presently being reviewed within the Executive Branch. Finally, after a five year hiatus, negotiations concerning the Czechoslovak debt are expected to begin in the near future.

Turning to the status of World War I debts, a National Advisory Council Working Group has been reviewing this problem. On the basis of the work of this staff committee, recommendations will be formulated and I expect we will soon be in a position to report to you on this matter.

National Advisory Council Activities

Coordination and monitoring of agency collection efforts by the National Advisory Council have continued unabated since we last met with your Subcommittee. One of the essential considerations applied by the National Advisory Council in reviewing U.S. Government and multilateral loan proposals is whether or not a particular country has obligations in arrears to the U.S. Government.

Review and policy coordination by the National Advisory Council was an important element in achieving collection on a number of overdue debts in recent months. We are convinced that our work over the past few years -- strongly supported by this Subcommittee -- has resulted in a greater awareness by recipient countries of the seriousness with which the U.S. Government views debt arrearages and the importance it places on prompt payments in considering new loan requests.

A weekly debt status report is submitted to the Council by the Treasury Department to assure that each potential recipient is reviewed in light of its creditworthiness. In addition, the Council has continued its semi-annual review of the status of all outstanding foreign debts. The most recent semi-annual meeting was held on June 24th when we reviewed in considerable detail the various achievements and

191

problems connected with the collection of debts owed to each lending agency. The inter-agency coordination through this forum does much to assure that our foreign debt collection activities will continue to receive a high priority.

Debt Arrearages

When Assistant Secretary Hennessy testified before your Subcommittee in March, we had only preliminary figures on arrearages as of December 31, 1972. These data, which are now final, show $639 million in arrears excluding, of course, World War I debt. This figure compares with the $678 million reported in arrears as of June 30, 1972. The improvement in the debt picture is mainly due to the elimination of the Soviet arrearage on lend-lease which evolved from last October's settlement. Partially offsetting this, however, was the $50 million increase in Chilean debt which occurred between June and December of last year.

Long-Term Arrearages

To place these arrearages in perspective, let me analyze briefly the composition of the debt. On December 31, 1972, the long-term component of the arrearages totaled $334 million. Almost $300 million of this amount was owed by five countries -- Chile, China, Cuba, Egypt, and Iran. This list of countries illustrates the nature of the major debt arrearages. They either pertain to unsettled World War II accounts, such as with China and Iran, or result from more recent political problems, such as those occurring with Cuba, Egypt and Chile. The most serious debt arrearage problem we have at this time is with Chile. As of December of last year approximately $86 million of a total of $920 million outstanding debt was in arrears. By March the 90-day due and unpaid debt of Chile had risen to almost $110 million.

Short-Term and Accounts Receivable Arrearages

The largest portion of the short-term credits and accounts receivable in arrears,which together totaled $305 million at the end of last year, can be attributed to unique political-military events in the post World War II period. As has been reported to the Subcommittee on previous occasions approximately $205 million of these claims represent logistical support provided to our allies during the Korean conflict and to the United Nations during its Congo operations of the early '60's. Another sizeable segment of the accounts receivable, some $25 million, represents lend-lease claims against China and India. Although I hope that satisfactory settlement will be reached concerning these claims, I am sure you appreciate, Mr. Chairman, the complex political considerations involved in collecting these arrearages.

With your permission I offer the December 31, 1972 arrearage table for inclusion in the record.

192

Summary of Arrearages on Foreign Indebtedness
To U.S. Government Agencies as of December 31, 1972
(In thousands of dollars or dollar equivalents)

Agency	Total	Long-Term Credits	Short-Term Credits	Accounts Receivable
Total, All Agencies	639,120	334,165	9,954	295,001
Department of Agriculture				
Agricultural Stabilization and Conservation Service	6,037	6,037	-	-
Commodity Credit Corporation	-	-	-	-
Department of Commerce				
National Bureau of Standards	21	-	-	21
National Oceanic and Atmospheric Administration	-	-	-	-
Department of Defense				
Civilian				
Canal Zone Government	3,051	-	-	3,051
Panama Canal Company	3,286	-	-	3,286
Military				
Defense Security Assistance Agency	4,043	4,043	- -	-
Department of the Air Force	15,716	-	38	15,678
Department of the Army	208,534	-	9,506	199,028
Department of the Navy	21,647	-	-	21,647
Department of the Interior				
Bureau of Mines	*	-	-	*
Department of Justice				
Immigration and Naturalization Service	125	-	-	125
Department of State				
Agency for International Development	84,103	76,704	-	7,399
Office of the Secretary	409	-	409	-
Overseas Private Investment Corporation	-	-	-	-
Department of Transportation				
Federal Aviation Administration	111	-	-	111
U.S. Coast Guard	104	-	-	104
Department of the Treasury				
Bureau of Accounts	143,441	118,301	-	25,140
Independent Agencies				
Atomic Energy Commission	71	-	-	71
Export-Import Bank	144,347	129,015	-	15,332
General Accounting Office	56	-	-	56
Social Progress Trust Fund (Inter-American Development Bank, Trustee)	-	-	-	-
Tennessee Valley Authority	-	-	-	-
U.S. Postal Service	4,018	66	-	3,952
U.S. Information Agency	-	-	-	-
Adjustment for Indonesian debt rescheduling	-	-	-	-

* Amount less than $500.

Treasury Debt Reporting

Finally, let me turn briefly to the collection and reporting of data pertaining to foreign debts, which are the responsibility of the Treasury Department. As the Subcommittee is well aware, the Treasury has accomplished a major expansion of its reporting system on foreign credits, since these hearings began in 1970. In response to the interest of the Subcommittee in obtaining a complete account of foreign debts owed to the United States Government, we have over the past two years developed and put into operation an entire new segment of our reporting system, to provide for the first time data on short-term U.S. Government credits to foreigners and on accounts receivable from foreigners. Thus, as Assistant Secretary Hennessy has previously stated, we are now able to give you complete figures on foreign debts of all maturities to U.S. Government agencies, as reported to us by the responsible agencies. We have previously provided these data to the Subcommittee as of June 30, 1972.

These data are included for the first time in the published semiannual report, Foreign Credits by the United States Government, which we expect to submit to the Congress within two weeks. Data for subsequent semiannual periods will be made available to the Subcommittee as they become available, and will be included in future semiannual reports to the Congress.

193

With the completion of this major reporting innovation, we have turned our attention to the solution of other problems which exist in the reporting system in order to speed up the reporting and to minimize the burden on the reporting agencies to the extent possible.

This, Mr. Chairman, completes my report to you on the successes and some of the problems we have had in recent months in our effort to improve the collection of foreign debts and to improve our system of foreign debt data reporting. I shall be happy to answer any questions you or Members of the Subcommittee may have.

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

194

ATTENTION: FINANCIAL EDITOR

July 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 April 26, 1973, and the other series to be dated July 26, 1973, which were invited on July 17, 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 $1,700,000,000, 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 October 25, 1973		182-day Treasury bills maturing January 24, 1974	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	97.977 a/	8.003%	95.844 b/	8.221%
Low	97.938	8.157%	95.810	8.288%
Average	97.949	8.114% 1/	95.818	8.272% 1/

a/ Excepting one tender of $35,000; b/ Excepting one tender of $10,000
26% of the amount of 91-day bills bid for at the low price was accepted
98% 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	$ 24,225,000	$ 14,225,000	$ 17,265,000	$ 7,265,000
New York	3,201,305,000	2,042,280,000	2,763,515,000	1,360,475,000
Philadelphia	21,690,000	21,690,000	11,650,000	11,650,000
Cleveland	30,000,000	30,000,000	40,215,000	23,595,000
Richmond	33,525,000	31,525,000	24,205,000	18,205,000
Atlanta	19,350,000	19,350,000	19,745,000	16,345,000
Chicago	291,520,000	190,520,000	370,735,000	142,905,000
St. Louis	38,900,000	34,160,000	90,400,000	29,140,000
Minneapolis	36,155,000	23,195,000	24,935,000	5,555,000
Kansas City	33,330,000	26,120,000	37,625,000	22,760,000
Dallas	38,885,000	18,645,000	38,935,000	20,235,000
San Francisco	117,195,000	48,495,000	120,730,000	42,895,000
TOTALS	$3,886,080,000	$2,500,205,000 c/	$3,559,955,000	$1,701,025,000 d/

c/ Includes $286,280,000 noncompetitive tenders accepted at the average price of 97.949
d/ Includes $219,230,000 noncompetitive tenders accepted at the average price of 95.818
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 8.40% for the 91-day bills, and 8.75% for the 182-day bills.

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

195

FOR IMMEDIATE RELEASE July 24, 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 was a determination of sales at less than fair value, and in the second case there was a final negative determination. These decisions will be published in the Federal Register of Wednesday, July 25, 1973.

In the first case Assistant Secretary Morgan announced that papermaking machinery and parts thereof from Sweden are being, or are 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 injury, dumping duties will be assessed on all entries of papermaking machinery from Sweden which have not been appraised and on which dumping margins exist. A notice of "Withholding of Appraisement" was issued on April 23, 1973, which stated that there was reasonable cause to believe or suspect that there were sales at less than fair value. Interested persons were invited to submit written views and request an opportunity to make an oral presentation before final action was taken. During the period of January 1968 through September 1971, imports of papermaking machinery from Sweden were valued at approximately $10.8 million.

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In the second case, the Department announced that a final determination has been made that paper-making machinery and parts thereof from Finland are not being, nor are likely to be, sold at less than fair value. A tentative negative determination was published in the Federal Register on April 23, 1973. This notice invited interested persons to submit written views or arguments, or requests for an opportunity to present their views orally. During the period of January 1968 through September 1971, imports of paper-making machinery and parts thereof from Finland were valued at approximately $12.1 million.

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

196

FOR IMMEDIATE RELEASE July 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 August 2, 1973, in the amount of $4,301,885,000 as follows:

91-day bills (to maturity date) to be issued August 2, 1973, in the amount of $2,500,000,000, or thereabouts, representing an additional amount of bills dated May 3, 1973, and to mature November 1, 1973 (CUSIP No. 912793 SB3) originally issued in the amount of $1,800,645,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,700,000,000, or thereabouts, to be dated August 2, 1973, and to mature January 31, 1974 (CUSIP No. 912793 SW7).

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, July 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 August 2, 1973, in cash or other immediately available funds or in a like face amount of Treasury bills maturing August 2, 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

197

FOR IMMEDIATE RELEASE July 24, 1973

JESUN PAIK APPOINTED U.S. ALTERNATE DIRECTOR TO ASIAN DEVELOPMENT BANK

Secretary of the Treasury George P. Shultz today announced the appointment of Mr. Jesun Paik as United States Alternate Director of the Asian Development Bank. Mr. Paik will serve as Alternate to the United States Director of the Bank, the Honorable Rex Beach.

A native of Seoul, Korea, Mr. Paik, 36, has been Senior Vice President of the Union Bank in Los Angeles, California, with which he has been associated since September 1961. A graduate of Claremont College in Claremont, California, Mr. Paik also holds a Masters Degree in Business Administration from the UCLA Graduate School of Management. Mr. Paik and his wife, Hisuh, have two children.

The Asian Development Bank, established in 1966, has its headquarters in Manila, Philippines, and is engaged in long-term development lending in the Asian region.

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198

July 23, 1973

NOTE TO CORRESPONDENTS:

Attached is the transcript of a televised interview in Tokyo with Under Secretary for Monetary Affairs Paul A. Volcker by Mr. Hiroo Ohyama, senior economic editor of Japan Broadcasting Corporation (NHK). The interview was televised as a special public affairs presentation of NHK on Wednesday, July 18, 1973.

(This transcript was prepared from a tape recording.)

NARRATOR: International currency system in trouble. An interview with program with Mr. Paul A. Volcker, Under Secretary of Treasury of the United States and a U.S. delegate to the Ninth Bilateral Cabinet Meeting on Economic and Trade Affairs. Interviewer is Hiroo Ohyama, economic affairs specialist of our station. The Ninth Cabinet Meeting concluded its two-day session yesterday. Compared with its preceding sessions, this year's meeting was characterized by its emphasis on global interests as compared with the past emphasis on bilateral interest vis-a-vis trade influence. This year bilateral interest has been very well improved so that our interests in this year's meeting were Japan's role or U.S. role or mutual contributions which are made to the global economic scene. We have the presence of Under Secretary Volcker of Treasury of the United States who will be talking on international currency problems and other related issues.

May I please describe the present situation of international currency? The critical situation has entered a period of a lull, although basic undertones of danger are still there. The lull, or period of stability, is due to the fact that Japan and other European countries have all gone to put their currencies on a floating exchange rate, and this accounts for the avoidance of any serious issues from outbursting. However, on the other hand, the trust in the dollar has not yet been recovered and there are a host of problems. An inflationary tendency has been manifest all over the world, and this could be the key to the international currency system.

Mr. Volcker, 45 years old, has been with the Treasury Department for four years and is now the most powerful man and decision-maker with Treasury so far as international currency affairs are concerned. Last February this year he successfully played hide-and-seek with the gentlemen of the press when he made an unannounced and unscheduled visit to Japan and other countries, and he has earned the epithet of a "ninja"* diplomat among the Japanese people.

Mr. Volcker, welcome to Japan. How do you like being nicknamed a "ninja"?

VOLCKER: Well, I am delighted to have a Japanese nickname, and I hope the word has some favorable connotations. But I am delighted to be associated with Japan, in any event.

QUESTION: In February you must have gone through a lot of trouble to settle the issues.

VOLCKER: We made a very quick trip in February, and I started off in Tokyo because it was important to have some exchange of views with the Japanese Government first and then I had to do a little quick travelling to Europe and in the space of a relatively few days some decisions were made. I was very happy at that point to get in and out of Tokyo without being seen, which is not an easy achievement for me.

*ninja: master of invisibility

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QUESTION: Thank you, sir. What, in your opinion, are the general achievements of the Ninth Cabinet Meeting?

VOLCKER: Well, I think you were quite right in your introductory comments to point out that these meetings, this time, were moving away from concentration on bilateral problems into a consideration of some world-wide problems where we don't always share identical points of view but where we find we have large areas of common interest and common approach, and with important negotiations and developments going on in the monetary area, in the trade area, dealing with international investment, energy problems that we all feel, problems of international development, this was rather a good occasion for exchanging views on, not bilateral problems, but international problems. Now bilateral concerns continue to be of interest. These meetings are set up partly to deal with bilateral problems, and we did discuss trends in some of our bilateral relationships. We have been happy to see, and I believe the Japanese Government is happy to see, our bilateral trade balance, for instance, coming into better equilibrium. And that is something we have together been working toward and wishing for for some time, and it is gratifying to see the trade come toward a somewhat better balance.

QUESTION: Thank you, sir. From the Japanese point of view your efforts at improvement of balance of payments is quite remarkable. We have been making efforts to buy more from the United States, but quite recently, and as we look at your decision-making processes about agriculture [inaudible] you are exercising export control, which is kind of strange to us because sometimes you want us to buy and now you want us not to buy. You are not going to sell us anything.

VOLCKER: No, I don't agree with that, sir. I can understand why this action which we took with great reluctance and unhappiness, really, is disturbing. And I understand why you raised the question. But I am also glad that you raised the question because, if I may say so, you did not put the matter in the right perspective. The fact is that the United States has been supplying steadily increasing amounts of various raw materials and particularly grains, feed grains and food grains, to the rest of the world. And Japan has certainly been one of our better customers in the past. The point I would make is that it has been an improving customer, and your demands for our products have greatly exceeded Japan's own estimates of what they wanted a year or two ago. Now, this has come at a time of world-wide shortages in these materials. We have had crop failures in various countries. We have had in Peru, for instance, the fishmeal industry going practically out of business due to a change in the fish population. It's an important source of protein. It adds to the demand for soybeans in the world. We've had failures in wheat crops or poor wheat crops in Australia, in Russia, and in various other countries. The United States has been residual supplier of many of these commodities and has held stocks, at considerable costs to ourselves, through the years. Now, we have continued to supply these goods abroad, and that's the point I want to make in bigger volume this year than last year, and bigger volume last year than the year before. And when we look ahead, with reasonable weather in the United States, the crops should be good and we will supply more to Japan and other countries next year than we supplied this year. Now we ran into a situation in the market of scarcity around the world in a time of some speculation where our crops, before the harvest, were oversold. And in that situation we have temporarily had to put on some controls. The point I want to make is that Japan has bought more from us this year than last year by a considerable amount and there is every indication that we will have more available next year than this year.

QUESTION: Thank you, sir. But Japan is a resource-poor country and, as we look at you from this side of the Pacific, the raw materials and the agricultural products and you say you cannot afford so much volume this year, we can't do anything about it to put it in more favorable balance. If we don't buy any beans from you, we can't have tempuras any longer. So, on the basis of decision-making, perhaps you can pay a little more attention to the way Japanese think and feel about these daily products.

VOLCKER: It's certainly important that we take into account the needs and concerns of other countries. And we try to do that and will continue to do that. As I indicated, for instance, this current crop year we have supplied more than 50 percent

more wheat, more than 100 percent more corn, and 20 percent more soybeans this year than last year. Consumption in the United States has been rather steady. So I think we are taking some account of your demands, which have exceeded your own expectations.

QUESTION: To turn now to questions of international currency which is your specialty, almost every year or once every several months we have a so-called crisis in the international currency system. One of the reasons, at least, to put it bluntly, is the fact that trust or confidence in the dollar has been deteriorating. What is your general comment on this issue?

702

VOLCKER: Well, we have faced in the United States a long period of deficits in our balance of payments. And, in the end, the reliability and stability of our currency is related to our balance of payments position. In recent years we have been working very hard to correct that situation. It is the other side, in part, of Japan's surplus. We hope that Japan has been working hard and has been working hard to correct its surplus. We must achieve a better balance in our payments and, as the other side of that process, a better balance in other countries' payments. I am convinced that that process is now well underway. We see evidence of it. Our payments are getting better. Our trade balance, after sinking into deficit, a very sizeable deficit, has, for the past year, been improving. And we think over a period of time that trend will improve. In the end, that's important. Now, factor number two is that the United States has had more inflation than we would like to see at home. Now, we're not alone in having inflation in the world. Inflation is true of virtually every industrialized country. We take considerable pride, actually, in the United States that if you take any reasonable period of years, if you go back 20 years, if you go back 10 years, if you go back 5 years, our price record has been better than that of virtually any other country internally. Now, in the end, in the long run, our balance of payments position and the strength of the dollar is going to depend on the stability of our prices at home. And, by and large, our record has been good. Now, we have a very serious problem at the moment, in part because of this food situation that we have just been mentioning, a major part because of the food situation, but we are working hard on developing programs to restore price stability in the United States. We think that's our natural position, our rightful position, and where we should be is having better price stability than other countries. And that's what we're aiming to do. In the end, there's no other answer to the so-called dollar problem than stability at home.

QUESTION: I see, I think you're quite right. But this dollar problem, the deteriorating confidence in the dollar, may have been caused by the severance of the dollar from gold convertibility. Although people may have their purses filled with dollars, there's no guarantee that the dollars can be converted into gold. This situation contributes to the popular disbelief, distrust in the dollar, and the restoration of convertibility to gold is of interest. What is the position of the American Government about the restoration of convertibility?

VOLCKER: If I may say so, I think the causation that you suggest is really backwards. We suspended covertibility

203

of the dollar because we had to make adjustments. We had this balance of payments deficit of which I spoke. We had to make some adjustments in exchange rates. Now, that has been a difficult and upsetting process in some ways. But the convertibility was suspended because the adjustments had to be made. I don't think it is right to say there is a lack of confidence because of the lack of convertibility. But rather we ended the convertibility because of the problems that we faced. And you have to go back to the fundamental question of our balance of payments and our internal stability when you talk about the strength of the dollar.

QUESTION: For one thing, currencies have to be sort of guaranteed by policies taken by the government of that country. In the case of the United States

VOLCKER: That's the only guarantee that makes any sense in the end--how good the policies of the country are.

QUESTION: Now, the Japanese decision-making process is not without problems, but as we look at United States decision-making, I have the feeling that you give top priority to internal problems and international implications are always given a second-hand treatment. Am I right in this impression?

VOLCKER: Well, I know we are criticized for that appearance that seems to be given some times, unfortunately.

I think this sometimes is more in the minds of foreign observers than it is in fact. I have a somewhat prejudiced view on this because I practically spend all day every day worrying about and concerned with the external side of our problems. From my perspective I don't think that the allegations that we hear that we are not concerned with these external problems are correct. Indeed, we are sometimes criticized at once and the same time for taking vigorous action to improve our balance of payments which has certainly been needed and criticized for taking the action as well as for not taking the action. I'd rather be criticized for taking the action because we have need to take action to improve our external position. These actions are difficult and sometimes they impinge upon other countries. But it is necessary to make these adjustments. Now, what we're talking about in terms of the international monetary system is, in a basic way, bringing together all countries in a way that they can respect their domestic requirements, whether it's the United States, Japan, a European country, or a small developing country. They respect their domestic requirements but do it in a way that takes account of the international needs and the needs of other countries. And, in essence, that's what the international monetary reform is all about.

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205

QUESTION: I agree. To look at it from a Japanese position, Japan's influence is still very limited, so we have the feeling that things get done in the United States or central European capitals and we are still left more or less alone from the central stream of international decision-making.

VOLCKER: Don't underestimate the position of Japan because any country with the growth and the economy that Japan has, can't and shouldn't be left out of decision-making.

QUESTION: A further question on the dollar, or it may have something to do with the world-wide inflationary tendency, is the issue of excess dollars or the overhang of dollars swarming all over the world. There is a big amount of dollars abroad and, if you start buying oil from overseas sources, there will be more excess dollars away from the United States. Of course, the United States dollar is not the single currency which is roaming around. But this certainly is a cause of the world-wide inflationary tendency. How do you respond to that allegation and what steps are you going to take about this dollar overhang?

VOLCKER: Part of the answer again has to be the fundamental question that we were discussing earlier. When our balance of payments is strong, when people realize it's strong, when our domestic performance is good, when we restore price stability, these dollars will no longer be a problem to people. But they will be a stable asset which people will be glad to hold. Now, there is a problem of a large amount of liquidity in the world which is common to a number of countries. You referred to the oil country problem. We think if the United States is competitive, we have extremely attractive investment opportunities and a large part of the money which the oil countries have to invest will flow into the United States. Now, on a more technical level, as part of international monetary reform, there are proposals, there is discussion of the possibility of taking those dollars which are held by foreign countries officially, by their central banks or treasuries, and converting part of those into an international reserve asset which is not the currency of a single country. Now, this is approached partly from the standpoint of dealing with those currency balances, partly from the standpoint of creating a new asset of general acceptability. This is part of the question in negotiations for the new monetary system. Of course, one of the interesting things in talking about these excess dollars is that you find that many countries, when you talk with them about this kind of problem, essentially say to you, "We would rather hold dollars. We're perfectly happy to hold dollars." So I think one can perhaps exaggerate the problem that you described.

QUESTION: To go on, the United States has devalued your currency twice. It has been a very effective and appropriate measure to come to a sort of a settlement in the international currency crisis, but at the same time the two devaluations were very unhappy news to whomever held dollars. They will think again before they want to gather more dollars because they may be afraid the United States will go on to devalue the dollar again at some time in the future. What is the prospect of another devaluation?

VOLCKER: We have no intention of any further devaluations. We think that the two devaluations that you described were necessary, but they were also enough. They restored an appropriate relationship between the dollar and the other currencies, and provided an opportunity for American industry to be competitive in world markets. From then on the problem is taking care of our problems at home, essentially. We have been in a boom in the United States. This has been part of a boom in many countries. But booms have their favorable aspects and they have their unfavorable aspects. One less favorable aspect is that it has slowed down the improvement in our trade position in our balance of payments. But we are convinced that exchange rate relationships that were established by the second devaluation are reasonably appropriate. As nearly as one can judge any of these things, there is no need, as we see it, and no intention of any further devaluation. Indeed, if I can just add, with respect to some European currencies, I would say the dollar is undervalued.

QUESTION: Thank you. The way the dollar is going down against the West German mark I agree with your statement that the dollar is undervalued. But this again is cause for one of the facts that the major countries in the world are floating their currencies. Some say this floating system is very effective. How do you asses the present floating system?

VOLCKER: Well, my assessment would agree with, I think, the view of most officials in this area, a very wide consensus that for this transitional period, given the uncertainties that have existed, given the extent of the adjustments that have had to be made, it is the best system that can be devised for this period. It is not a permanent system. We want to work toward a more permanent reform of the monetary system as rapidly and effectively as we can. But for this transitional stage, this is the appropriate system to apply. And I find that view expressed in Japan as I do in Europe, and it is our view in the United States as well.

QUESTION: Thank you, sir. Now, what troubles us a little is that simply because the present stop-gap is working very well it may work to discourage people to approach a drastic permanent reform. The IMF meeting scheduled for the fall is a little too near in the future. What is the perspective for this permanent reform of the monetary system anyway?

VOLCKER: We should work on this, and from our standpoint we are working on it as hard as we can. I am glad to have a system in place that is going to last until we can get a satisfactory and more permanent system in place. So I don't take that as a criticism of the present system--that it may be too good, as you're suggesting. It's not that good in the sense that it's not a substitute for agreed rules for an agreed system of the type we are looking for. But it will be satisfactory until we can get this new system in place, which takes some time, inevitably.

QUESTION: As we look toward the new system, the Americans have come up with various proposals, one of which is that the foreign reserves be taken as our objective criteria for international balance of payments adjustment. What is the philosophy behind this proposal?

VOLCKER: Well, the basic philosophy is, as we were speaking earlier, one has to take account of the external needs. And the basic rule of the system, as we see it, must be to seek balance, to seek equilibrium, in your balance of payments. Now, this so-called objective indicators is simply a device for enforcing that kind of discipline in a fair, in a symmetrical, in a balanced way. We think it's a good method of approaching this. The basic point is we have to get this discipline. We have to encourage countries to work toward balance in their payments.

QUESTION: Thank you. The last question is in the future currency situation, what role or contribution do you expect Japan to make?

VOLCKER: Well, we expect Japan as a truly leading power in the world, along side the United States, along side Europe, to take a constructive, outward-looking role in these negotiations. As we were just speaking, we expect Japan, like other countries, and we have to accept this responsibility ourselves, to work toward balance in their payments. If countries can accept that obligation and responsibility, I think we will find, with Japan's help, a constructive monetary reform in the coming months.

QUESTION: Thank you very much, Mr. Secretary.

VOLCKER: Thank you.

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208

GENERAL REVENUE SHARING
A FACT OF PUBLIC LIFE

Remarks by

Graham W. Watt, Director
Office of Revenue Sharing
U.S. Department of the Treasury

at the

National Association of County Officials
38th Annual Conference
Dallas, Texas

July 24, 1973

How do you measure the age of a program like general revenue sharing? If by time, it is still very young: only nine months have elapsed since President Nixon signed the State and Local Fiscal Assistance Act into law and made revenue sharing a reality for states and local governments -- more than 38,000 of them.

If we measure its age by dollars, general revenue sharing is approaching maturity: more than eight billion dollars have already been distributed for use by states, counties and local governments.

If we were to judge the program in terms of its experience, we would not know how much of its ultimate growth revenue sharing has already achieved.

We can see that our approach to federal financial assistance is a change from the pattern of the recent past. New relationships and new procedures have been established between those of us who represent the federal government in this effort and you who are recipients and users of the funds. The attitude is, at last, one of keeping Washington's hands off your planning and Washington's nose out of your decision-making. It is too early to tell how far we can develop this type of relationship. Opinions are mixed: there are those who still feel that local needs should be assessed and addressed directly from Washington. But the overwhelming majority of local officials are enthusiastic that a portion of federally collected tax revenues is being returned to cities, towns and counties to be used to solve their local problems.

If the age of revenue sharing is to be measured in terms of its achievement, then we know it is still growing. Every day, we in the Office of Revenue Sharing learn of a new example of reawakened interest and meaningful participation in government decision-making at the local level because of the existence of this program.

But however the age of general revenue sharing is to be measured, it is well-established reality that state and local governments are relying upon the predictable product of our efforts. Revenue sharing has become a fact of our public life.

Our present form of general revenue sharing was first discussed seriously in the late 1960's, when it became clear that concentration of power in Washington was diluting our democracy. Individuals and local and state governments alike were "letting Uncle Sam do more and more" and liking it less and less. Too many decisions were being made in Washington about local needs for and uses of federal aid money. Uncle Sam was deciding which problems required federal funds to solve; and if a community could not prove it had those problems, it did not qualify for federal assistance.

The Federal Government no longer seemed to be relevant to many Americans. We saw the beginning of a decrease in interest in the processes of government generally. Public officials in many instances found it difficult to drum up interest in public policy. Such a trend, if carried to its ultimate end, may destroy democracy.

It was in this political milieu that general revenue sharing became a subject of serious discussion. In August 1969, speaking to the nation on domestic problems, President Nixon said:

We can no longer have effective government at any level unless we have it at all levels. There is too much to be done for the cities to do it alone, for Washington to do it alone, or for the States to do it alone.

For a third of a century, power and responsibility have flowed toward Washington and Washington has taken for its own the best source of revenue.

We intend to reverse this tide, and to turn back to the states a greater measure of responsibility -- not as a way of avoiding problems, but as a better way of solving problems.

Like most highly innovative ideas, this one was not immediately accepted. President Nixon proposed it again in his State of the Union Message in 1971, fought for it, and finally signed general revenue sharing into law in the fall of 1972.

It is clear from our early assessment that the goal of increasing public participation is, indeed, being realized.

Many, many communities are encouraging citizens, individually and in groups, to assist in determining how their shared revenues are to be used.

Take, for example, the city of Texarkana, Arkansas, where a Citizen's Committee for Revenue Sharing has been established. The committee is made up of representatives of zones into which the city has been divided for this purpose. Members review conditions in their city, try to assess impacts of alternative uses of revenue sharing funds, hold public meetings to discuss the possibilities and make recommendations to the City Manager. In addition, the committee has responsibility for evaluating the impact of the money once it has been spent.

Not far away, in Jefferson County, Alabama, the county Board of Commissioners convened public hearings to discuss how its more than four million dollars should be allocated. Most of those who turned up at the meetings were representatives of social service groups. It should come as no surprise, therefore, to learn that more than one-third of Jefferson County's first four million dollars was earmarked for social service programs: the home for the aged and poor was enlarged; hospital equipment was purchased; and new quarters will be built at the local mental health center.

We understand that in Dover, Delaware, when a plan was announced to put all of the initial entitlements into a fund for the construction of a convention center, so much public interest was aroused that public hearings were convened. When finally adopted, the city's plan called for one-third of the money to be used for the convention center and the remainder to be devoted to such programs as public transportation for the elderly and services for the handicapped.

The point is, of course, that public participation does have an effect on government decision-making in a democratic environment; and <u>when given something to make decisions about, the people will participate</u>.

We have learned in the last few months that many of your early planned uses included capital investments of one sort or another. We have also been made aware by many of you that the first checks you received from us were in effect a "windfall". Accordingly, your first expenditures of revenue sharing funds were for projects that represent very real needs but for which funds had not been available previously. Often, these involved capital expenditures.

Now that you have estimates and can rely upon the timely receipt of your checks, we have heard from many of you that you plan to shift the money from capital projects and put more of it into operating and maintenance expenses.

Although we in the Office of Revenue Sharing will make no value judgments on your own revenue sharing expenditures assuming, of course, that you are complying with the laws, others have commented critically on this use of the money. A television news reporter asked me recently, for example, whether I did not feel that the money would be used better if spent to benefit the poor, instead of for capital expenditures.

I explained to the reporter, and I shall repeat it here, that expenditures for capital purposes and expenditures for the benefit of the poor may not be mutually exclusive. We know that a great deal of the money is being spent to build, repair and equip facilities that directly help the poor and others who are disadvantaged.

We shall have more specific information to substantiate my explanation to the newsman when the information on your first Planned Use Reports has been compiled. In the meantime, however, we have a general idea about your current proposals from flipping through piles of these reports and from a very informal study that has been made by a university student working this summer in our Public Affairs office.

The small community of Remer, Minnesota, wrote on its first Planned Use Report that its money was being used to fix roads because, "It is a pitiful condition when the sick must be carried out because the roads are so bad."

Santa Clara County in California has decided to use money for mobile health units, a new drug abuse program, halfway houses for alcoholics, rat control, rent payments for county health centers, a community action program for high school dropouts, and hospital equipment that will put costly treatment for kidney disease within the reach of many who previously were not able to afford this vital care.

A new drainage system for the city of Sebastian, Texas, might seem superfluous to one who did not realize how very bad are the mosquitoes there because of the flooding that occurs for want of proper facilities. The mosquitoes are a health hazard to all of the citizens of Sebastian -- rich and poor, black and white, male and female. All are itching to alleviate the condition.

The small county of Del Norte on the north California coast has allotted approximately half of its revenue sharing entitlements for the first three periods to capital improvements. The improvements, planned to be made at the county hospital, include x-ray tables, two beds in the intensive care unit, a fire escape, fire doors, and a sprinkler system. These expenditures were recommended by a citizen's committee composed of the chairmen of various county agencies, citizens groups and citizens at large.

212

The stories that we are hearing about citizen involvement in the setting of priorities for the uses of shared revenues are encouraging as examples of the value of the democratic process and as proof of the contribution that general revenue sharing is making to that process. It is happening with your help, for in most communities we hear that local officials are encouraging citizen participation rather than waiting for it to come about.

Hopefully, you welcome the citizen input to your planning and hopefully, it will be a source of strength to all. It is not a requirement of the Act; but it may very well turn out to be a requirement for success in our effort to renew the democratic process in America.

With your permission, I shall address myself briefly to a few administrative matters with which we are all concerned.

We are aware, of course, that it is sometimes difficult for recipients of shared revenues to meet the few requirements that do apply to local use of this money. We have been told of extenuating circumstances at the local level; and we are not insensitive to these.

Take, for example, the situation of a town in Ohio whose clerk-treasurer wrote us this month, saying:

> ... we have no Mayor. He resigned and the President of the Council refuses to act or accept the Mayor's position. We have a part-time Marshal, but our police cruiser is worn out. I as the Village Clerk Treasurer am holding on to keep the Corporation intact ... The Council holds regular monthly meetings and does business as usual.

And we are entirely sympathetic to the Alaskan native village that has had to ask for an extension of time in which to file its Planned Use Report. That jurisdiction recently wrote to tell us:

> We regret to inform you our Native Village Chief -- who is our Chief Executive Officer under your program has passed away, May 8, 1973. He is still lost in the river...

With the exception of jurisdictions whose extraordinary circumstances make it impossible for them to comply with our regulations exactly as we suggest, however, we do think that our few requirements for reporting and accounting pose no insurmountable obstacles or untenable burdens to recipients of revenue sharing funds.

You are by now familiar with the Planned Use Report. Hopefully, all of the jurisdictions represented at this meeting have submitted the first of those forms to us, and did so well before the June 20th deadline. Your second Planned Use Report, covering the fourth entitlement period, July 1, 1973 through June 30, 1974, is on its way to you at this moment. It may already have arrived, for it was mailed from our printers in Green Bay, Wisconsin last Friday.

You will note that the amount of your government's total fourth entitlement period is printed in the upper right-hand corner of the Planned Use Report form, near your address. This amount will be paid you in quarterly installments beginning in October of this year and then in January, April and July of 1974.

Some elaborate calculations went into the preparation of your fourth period payment amounts; and I think it important to take a few minutes now to discuss the procedure used.

The total amount that Congress appropriated for distribution during the fourth entitlement period is $6.05 billion which is $413 million higher than the amount available for the previous fiscal year. Accordingly, the amount of money being shared with all the jurisdictions during fiscal year 1974 is more than it was for fiscal 1973.

The fourth entitlement amounts that have just been calculated and are now being announced also include all adjustments to all payments that your governments have received so far. In almost all cases, these will be the final adjustments for the first three entitlement periods.

You will be glad, I know, to learn that the amounts withheld during the first and second entitlement periods, one percent and five percent, respectively, are now being distributed. These funds are included in the adjustments that have been made and will be added to fourth period payments.

Before your enthusiasm for that action becomes unlimited, however, let me hasten to say that the Office of Revenue Sharing has established an Obligated Adjustment Reserve of one-half of one percent of the appropriation for each entitlement period. This reserve will be used to make adjustments that may be required after the close of an entitlement period. It is prudent and necessary to establish this reserve fund which will enable us to make these unusual adjustments in individual entitlements without having to recover funds already paid to the great majority of the almost 39,000 units of government that receive shared revenues on a regular basis.

When the amount of money that has accumulated in this Obligated Adjustment Reserve is clearly more than would be required to make individual adjustments, then the Office of Revenue Sharing will distribute the unneeded reserve funds to all eligible units of government.

The adjustments also reflect recalculation of the first three entitlement period amounts using verified data. New tax data were introduced to calculate fourth entitlement period amounts. These new 1972 Census of Governments tax data will be subject to verification as well. These data will be published and a verification announced by ORS in the fall.

To recapitulate: the net adjustments that the Office of Revenue Sharing has made to the first three entitlement period amounts for each jurisdiction were added to the fourth period allocation. The resulting total, in almost all cases, is the amount shown on the current Planned Use Report and is what a jurisdiction will receive in quarterly payments during the present fiscal year.

The books have been closed for the first three entitlement periods. A few extraordinary situations do exist where long-standing data challenges still require resolution. Payments that may be required in the future as a result of these data changes or court action will be made from the Obligated Adjustment Reserve which I have described.

Adjustments required when fourth period data have been verified will be made and reflected in the fifth period payments, and the books then will be closed on fiscal year 1974.

The Planned Use Report that you have just received and that gives you your fourth period payment amount must be completed, published locally and returned to the Office of Revenue Sharing by September 20th.

It would be an enormous help to us if you would return these forms to us well in advance of that date, if your work on them has been completed. Our first experience with the report -- the one that you returned by June 20th -- was that we were required to employ three college students, full-time, for two weeks to do nothing but "unstuff" Planned Use Reports in the mail room. Most jurisdictions chose the very last moment to send them back to us.

In this first year of operation of general revenue sharing, it must seem to you, our recipients, as though there has been a great deal of paperwork for a "no strings attached" program. Please remember that in this first year of the program's existence, entitlement periods were shorter and the reports that we are required by law to request of you had to come more frequently to establish a schedule and get caught up with the retroactive features of the law.

We are now beginning a time, however, when the Planned Use Report and the Actual Use Report will be sent to you only once each year. This means you will receive one of each each year. These will correspond with the entitlement periods themselves which, as of July 1, 1973, now last for an entire federal fiscal year.

I know that you are now working to complete the first Actual Use Report that was sent to you at the end of June. The due date for that report to be returned to us is September 1. Again, we would be grateful to those of you who are able to complete the report and return it to us well before the deadline.

On the Actual Use Report, you are to give us the details on how you actually used all the funds that you received from the Office of Revenue Sharing through June 30, 1973. As with the Planned Use Report, the Actual Use form must be published in a newspaper of general circulation in your area; and you must inform the other news media, including minority and bilingual media, in your locality that the reports have been published. The purpose of this requirement is to assure the citizens of your communities of minimal information about your plans for and actual uses of these funds. Its desirable, of course, that more than that be done to provide your citizens with knowledge on which to base their recommendations for uses of shared revenues.

Press releases, press conferences, public hearings, briefings for citizens' groups and other similar methods are now being used by communities to "get the word around".

We have had a few instances brought to our attention of communities where the requirement for publication of these reports is difficult to meet. If, for some reason, any of you are having what you consider to be insurmountable problems getting copies of our reports reproduced in your local papers, please write to me in Washington. If we find that this requirement needs to be modified, we shall consider proposing to Congress that appropriate amendments be considered to our legislation. In the meantime, however, the requirement of the Act must be observed.

Some of your communities may have been visited by the audit and compliance teams that travelled from the Office of Revenue Sharing to 103 states, cities and counties throughout the United States in May and in June. We are now preparing a summary report of the results of the meetings that our people held with officials in these communities. In general, it is safe for me to say that we were very pleased with the cooperative and helpful attitude shown by those who are administering general revenue sharing funds on the local level.

216

As you are aware, there are a few restrictions on the uses of shared revenues -- very few. They involve nondiscrimination, minimum wage, matching funds prohibitions and the requirement on local governments that shared revenues used for operating and maintenance expenditures be spent in certain "priority" categories.

The overwhelming majority of jurisdictions that we have visited clearly are determined to see that these requirements of the revenue sharing law are met. In a few instances, where this seems not to be the case, we feel it is probably because the requirements are not well understood. Needless to say, we shall help to clarify the law and our regulations where clarification is necessary and make every effort to help to achieve compliance before taking enforcement action.

When our report on the audit and compliance meetings has been completed, we shall see to it that your able representatives at the National Association of County Officials in Washington are well briefed about its contents, and that they have copies so that they may pass on to you the benefit of our findings.

We are continually grateful to the staff of NACO for the help they have provided all of us in facilitating the flow of accurate information about the general revenue sharing program between our office and your offices, and for their always useful suggestions on regulations, forms and procedures.

With their help and yours, we in the Treasury Department are confident that general revenue sharing will fulfill the high expectation of meeting local needs in a way which will assure a better quality of life for all Americans.

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

217

ATTENTION: FINANCIAL EDITOR July 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 336-day Treasury bills to be dated July 31, 1973, and to mature July 2, 1974, which were offered on July 18, 1973, were opened at the Federal Reserve Banks today.

The details of this issue are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS: (Excepting 3 tenders totaling $3,420,000)

High	-	92.210	Approx. equiv. annual rate 8.346%	per annum
Low	-	92.135	Approx. equiv. annual rate 8.427%	per annum
Average	-	92.167	Approx. equiv. annual rate 8.393%	per annum 1/

(58 % 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	$ 12,810,000	$ 2,810,000
New York	2,345,385,000	1,514,485,000
Philadelphia	17,645,000	3,645,000
Cleveland	42,815,000	12,815,000
Richmond	6,280,000	6,280,000
Atlanta	5,645,000	5,645,000
Chicago	301,555,000	104,555,000
St. Louis	24,550,000	10,550,000
Minneapolis	8,715,000	715,000
Kansas City	24,395,000	10,360,000
Dallas	25,225,000	2,725,000
San Francisco	167,825,000	125,515,000
TOTALS	$2,982,845,000	$1,800,100,000 2/

1/ This is on a bank discount basis. The equivalent coupon issue yield is 9.05%.

2/ Includes $73,600,000 entered on a noncompetitive basis and accepted in full at the average price shown above.

218

Department of the Treasury

to Treasury Officials

Office of Public Affairs

room ______ date 7/24/73

For your information, attached is a USIA-prepared summary of foreign press reaction to the announcement of Phase IV.

Special Consultant to the Secretary (Public Affairs)
Joseph A. Loftus
room 2324
ext. 5252

219

WORLDWIDE TREATMENT OF CURRENT ISSUES

Phase IV Announcement

No. 87 July 20, 1973

220

Worldwide Treatment of Current Issues
is published by the U.S. Information Agency
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Tel.: 632-4936

221

...Western Europe, p. 2 Asia, p. 9 Communist Countries, p. 11

PHASE IV AND ECONOMIC AFFAIRS

Summary

The announcement of President Nixon's Phase IV economic program received moderate to prominent news play in many capitals, but drew substantial comment only in Britain and Japan.

The U.S. editor of the London Financial Times termed the new controls "as much a political gesture as an economic one," the "beneficial effect" of which "will be limited." He added that the President "will probably not gain much politically from doing what he could not avoid..."

A commentator on Japan's Fuji TV said Mr. Nixon was combining "the Phase IV program with a balanced-budget policy" and forecast "difficult times ahead for the U.S. economy."

Mainichi of Tokyo doubted the effectiveness of Phase IV and predicted that it would be "a delicate matter for U.S. leaders to guide the American economy because there are signs of a business slowdown in the country..."

Current American positions on international trade and monetary affairs brought mixed comment from West European observers.

Raymond Aron wrote in Figaro of Paris that U.S. reversal of its former policy against devaluation of the dollar made American authorities look "irresponsible or...cynical."

Milan's Corriere della Sera declared that while "America must stabilize the dollar," Europe too faced a decision: "It cannot fear an invasion of American exports on the one hand and simultaneously buy all it needs from the U.S. If matters continue on this course," it concluded, "there will be only a series of blackmail operations."

Moscow domestic radio reported the announcement and said President Nixon "virtually admits that the Government's previous measures to abate inflation have proved unsuccessful." Peking NCNA called Phase IV "another measure...to check the worsening inflation...."

* * *

222

London Headlines

British papers headlined yesterday:

> "FOOD PRICES LEFT OUT OF NEW U.S. STANDSTILL"
> (Times of London)
>
> "NIXON IMPOSES STRINGENT SYSTEM OF WAGE AND PRICE CONTROLS"
> (Financial Times)
>
> "BEEF EXCEPTED AS NIXON LIFTS FREEZE"
> (Daily Telegraph)

The story broke late yesterday and shared interest today with Britain's efforts to defend the pound sterling and fight inflation.

"Some Evidence to Support Optimism"

U.S. economics correspondent Anthony Thomas wrote in yesterday's Times that "inherent in Mr. Nixon's statement and in Mr. Shultz's press briefing is the profound hope that the 1973 harvest will prove a bumper one and slow the recent very rapid rate of increase in food prices. There is some evidence to support optimism here."

"Not an Instant Cure"

U.S. editor Paul Lewis declared today in the independent Financial Times that "President Nixon's Phase IV controls are as much a political gesture as an economic one.

> "For better or worse, the public has come to identify the Administration's determination to protect the dollar's purchasing power with tough restrictions on prices and wages....
>
> "This is not to say they will not have some beneficial effect, but only that it will be limited and that, paradoxically, the President will probably not gain much politically from doing what he could not avoid....

223

"Inevitable as Phase IV is, it will not provide an instant cure for anything and must inevitably become the subject of partisan debate in the increasingly bitter political atmosphere that has blown up in America since the last election."

Lewis concluded that "until Watergate is resolved and a return to balanced economic growth has calmed the rebellious anger of the Congress, every Presidential initiative will be contested and the struggle between the proponents of foreign involvement and isolationism will continue..."

West Germany: News Play for Phase IV

Major West German newspapers yesterday gave front-page play to reports of the Phase IV program, stressing the intention to lift restrictions on agricultural exports. They also gave space to the decline in the dollar rate on international markets and to the announcement that the U.S. would intervene to support the dollar.

No comment on Phase IV was available.

"EEC Imitating U.S.?"

An article in right-center Frankfurter Allgemeine yesterday called the decision of the Brussels meeting of EEC agricultural ministers that the Community may impose embargoes on grain exports if necessary "an imitation of the American initiative."

Reporting that the Administration decision to restrict the export of American farm products came as "a bolt from the blue" to many European governments, importers and producers, who then wrote "warning and imploring letters to Nixon," the article stated that the U.S. restrictions "had finally furnished European farmers the convincing argument for economic self-sufficiency.

"Now the EEC has more reason to refuse to absorb American farm surpluses and to spark national agricultural production....

"In addition to giving a bad start to the GATT negotiations, Nixon's policy is inconsistent--first he wants to improve the U.S. balance of payments by increasing agricultural exports, and then he restricts those exports....Then he sells huge amounts of grain to Moscow and Peking, and later realizes that America is short of grain..."

224

"U. S. Restrictions Shake Confidence"

Business-oriented Handelsblatt of Duesseldorf yesterday asserted that the U. S. had made "a 180-degree switch.

> "The U. S. refuses to supply the European market with agricultural products at the very time when the Common Market, yielding to considerations of the U. S. balance of payments problems, among others, has absorbed American farm products.
>
> "It is of no consequence that the White House assured Foreign Minister Scheel that it was stunned by the Department of Agriculture's policy, or that the restrictions will be lifted as soon as the crops are in.... Confidence that the U. S. is not only a potent, but also a respectable and reliable contractor has been badly shaken."

"All Is in Disarray"

Independent Sueddeutsche Zeitung of Munich declared today that the situation has changed basically in the 18 months since the coming GATT conference was first proposed.

The paper said "the entire transatlantic relationship--including security, monetary and trade policy--has been thrown open to discussion. In security policy, the U.S.-USSR accord has prompted apprehension...In the monetary sphere, all is in disarray, largely because of the Americans...In the trade sector, the Americans have gone back on contractual commitments.

> "We cannot imagine a worse climate...Apparently the efforts to liberalize world trade which started when GATT was established in 1947 have come to an end, at least for the time being. Even if the Nixon Round does take place, the participants will withhold concessions in the belief that these could be 'sold' more profitably in a worldwide round of negotiations..."

West Berlin: "Europeans Shrink from Consequences"

Independent Tagesspiegel of West Berlin declared yesterday that neither the revaluation of the D-mark nor the intervention of the central banks had stopped the decline of the dollar.

225

The paper concluded:

> "The Europeans criticize the sick dollar and hold the Americans responsible for the permanent monetary crisis, but they shrink from the consequences of the measures to heal the sickness--a new lower value of the dollar set by the free play of the market would not only eliminate the imbalance in exchange rates, but would also provide the prerequisite for the recovery of the American trade and payments balances.
>
> "As a result, the American economy would become stronger and more efficient, and the competitive struggle on international markets would become more difficult for the Europeans. That is the other side of the dollar problem, the side that is more painful for the Europeans. But only thus can the problem be solved."

Paris: Resentment of U.S. Policies

French media yesterday and today examined trade and monetary developments, generally finding cause for West European alarm and resentment toward U.S. policies.

No treatment or discussion of Phase IV was available.

Pompidou Warning on Food Supply

A major story in all media today was President Pompidou's remark in a television interview that he was "not pessimistic" about the economic situation but "one should not fall asleep, because the general situation--monetary, political, European--is a matter of concern."

Mr. Pompidou declared that the franc would not be revalued and asserted:

> "It is essential that Europe and France live on their own resources with regard to the supply of food."

"Are We at War?"

In middle-of-the-road Figaro today, commentator Raymond Aron said he had "planned to write Kissinger an open letter cautioning him against the dangerous

22C

orientation he is giving American diplomacy." He saw the Administration's "grand policy" taking on "an increasingly economic content" and asked:

> "Do competitors--Japan and Western Europe--figure as enemies, and the former rival--the Soviet Union--as the preferred partner?"

Aron maintained that "all observers, from the left to the right," consider that "we are at war--though it is not clear yet whether it is a trade war or a monetary war." Therefore, he continued, "it is highly important to understand the adversary....

> "If we are at war, let's stop sermonizing: let us strive to convince or compel. We cannot compel the American leadership to restore gold convertibility or to stabilize the parity of the dollar. But we can convince them--some of them are already convinced--that inordinate movement of the American currency is contrary to the interests of everyone, the U.S. in particular....
>
> "The conduct of American authorities appears to me irresponsible or, if you prefer, cynical. After refusing for six years to devalue the dollar under the pretext that it served as a reserve currency, they now refuse to fix its value and use the same argument to justify this opposite position. I doubt that this conduct demonstrates either superior intelligence or a Machiavellian strategy."

"Our Partners Are Pusillanimous"

Commenting on the EEC agriculture ministers' meeting in Brussels, a by-line writer in financial Les Echos remarked yesterday that "every time American policy is at issue in Brussels, France stands alone." He noted that France's permanent representative in Brussels "has imparted to his European colleagues France's concern that the Common Market nations should not begin Nixon Round negotiations before the American currency is back to the parity level of last March, but he seems to have had a very cool reception." The writer concluded:

> "If France persists in its firmness and our partners in their rather pusillanimous attitude toward the U.S., the danger of a Common Market crisis will become about as imminent as at any time since General de Gaulle used to pound the table."

227

"Europe Missed Chance to Avoid Manipulation"

Independent-left Combat of Paris declared yesterday, "The Europe of the Nine is definitely not ready to abstain from expediency and subterfuge, nor the detestable habit of playing for time."

It said the Common Market agriculture ministers had reacted to the proposals advanced by France with "an attitude ill-suited to present necessities" and contended that "they overlooked the reality--the imminent, serious period--and showed their weakness, playing for time in order not to jeopardize the already precarious relations between the EEC and the U.S. before the Nixon Round." The paper concluded:

> "Europe had an exceptional opportunity to show that it will not let itself be manipulated by the U.S. It has missed that chance--deliberately, shamefully."

"Soybean Shortage a Lesson for the World"

In independent-left Le Monde of Paris, a by-line writer mused that "while there is little in common between what is taking place in the Saharan border areas where livestock are dying of thirst and hunger, and what is likely to happen to livestock in France because the Americans have decided to restrict soybean exports, nevertheless rich and poor suddenly realize a little better that they live on the same planet and share the fruits of the same earth, which are not inexhaustible."

After taking the wealthy nations to task for spending prodigiously when power politics or national prestige are at stake, the writer declared:

> "Following the principle of the division of labor, Europe had allowed the U.S. to specialize in soybean cultivation.... Now, after being buried under surpluses, we wake up in a situation of shortage....
>
> "When the U.S. saw that farm prices had gone up three times faster than other prices, it did not hesitate to limit exports of certain products, including soybeans, regardless of its position on the Nixon Round....

228

"Soon the art of belt-tightening will no longer be reserved to two-thirds of the earth. The resultant solidarity may perhaps lead to other forms of solidarity."

"Against a Vassal Europe"

A writer in Gaullist La Nation maintained yesterday that the French Government's demand for some kind of monetary stabilization agreement before trade talks open in Tokyo this autumn "is prompted by common sense and urgency...

"Common sense: How could Europe agree to negotiate trade concessions if the U.S. can continue at will to bestow upon itself considerable advantages by simple unilateral monetary manipulation?

"Urgency: The dollar continues to weaken....

"Since on the monetary level the U.S. chooses to adopt an attitude of guilty indifference, it is up to Europeans to avoid the trap being laid for them by a commercial discussion without prior monetary settlement. Once again, the voice of France is raised against the idea of a vassal Europe."

"The Dollar Is Watergate-sick"

A leading provincial paper, Depeche du Midi of Toulouse, carried a by-line writer's view that in international monetary affairs "one element of which Mr. Nixon is no longer master increases the uncertainty. True, the dollar is going down for many reasons--balance of payments deficit, debt--but its decline is also related to the current U.S. political and moral crisis. The dollar is Watergate-sick." Thus, the writer declared, "the U.S. President appears to be bluffing Europe and Japan at a time when he is no longer in a position to win."

Milan: "French View Must Be Considered"

No comment on Phase IV was available from Italy.

Independent conservative Corriere della Sera of Milan yesterday titled an editorial, "Europe Must Make Decision." It argued:

"We do not say that the French position in Brussels...must be accepted, but it must be considered. The basis of it is

229

the old challenge to dollar supremacy. There no longer is a dollar standard but we still have its consequences, which are the flood of unconvertible dollars in Europe and the utmost American indifference to the idea of supporting them..."

The paper doubted that a new monetary system could be evolved in the 67 days before the Nairobi conference. It commented, "France is not totally wrong when it maintains that there is no sense to having discussions on trade and tariff reduction if the dollar is not stabilized...

"With or without the swap, America must stabilize the dollar; but Europe must also make a decision. It cannot be afraid of an invasion of American exports on the one hand and simultaneously buy all it needs from the U.S. If matters continue on this course, there will be no monetary, commercial or customs negotiations. There will only be a series of blackmail operations."

Helsinki: "Phase IV's Limited Control Machinery"

Independent Helsingen Sanomat declared in an editorial today, "Little more than a month after the beginning of the freeze, Nixon has been compelled to cancel the freeze on food and health services.

"He has said resignedly that the rise in food costs cannot be prevented, with or without controls. The flexibility of the control machinery will be increased, although it will still be awkward and complicated. Because of the limited size of the U.S. control machinery, it is not at all certain that Phase IV will be more effective than Phase III."

Tokyo: Prominent Play for Phase IV

Japanese television networks and newspapers gave prominent coverage today and yesterday to Phase IV.

A commentator on Fuji TV said the President was combining "the Phase IV program with a balanced-budget policy," that "Mr. Nixon did not carry out a tax-increase measure because it would require Congressional approval," and it "appears difficult for the President to win Congressional approval at present because of the Watergate affair." He predicted "difficult times ahead for the U.S. economy."

230

"Reveals U.S. Perplexity"

Leading liberal Asahi of Tokyo said today:

> "Speaking frankly, the Phase IV measures reveal U.S. perplexity in trying to control inflation. It is natural that there are voices of doubt even in the U.S. over the effectiveness of these regulations...
>
> "The failure of the U.S. Government to halt the progress of inflation will lead to a dollar crisis...."

The paper welcomed the knowledge that U.S. export controls would "not be expanded to include such products as corn, which is important...for Japan..." However, it noted that there had been "no clarification on soybeans and other products restricted at present except for the announcement that controls would continue until the marketing of new crops."

It declared, "The U.S. should at least have clarified the time schedule on lifting the embargo out of consideration for relieving the concern of Japan and other consumer countries."

"Japan Should Watch Closely"

Moderate Mainichi of Tokyo urged today, "Japan should watch developments closely rather than view Phase IV of the American fight against inflation as an outsider." The paper said:

> "There are doubts about the effectiveness of the new inflation control policy. It will be a delicate matter for U.S. leaders to guide the American economy because there are signs of a business slowdown in the country...
>
> "It is commonly understood that U.S. inflation is not solely a domestic problem because it casts its shadow on the international monetary and trade situation."

Seoul: "Phase IV Could Hurt ROK Exports"

Independent Hankuk Ilbo of Seoul today expressed concern that Phase IV controls could cause "a sharp rise" in the prices of American exports to Korea "and thus deal another blow to the Republic of Korea's export industry which relies largely on raw materials supplied from abroad."

231

Pro-Government Shina Ilbo said the meetings of Commerce Secretary Dent and the South Korean Minister of Commerce "brighten prospects for U. S.-ROK trade."

Moscow: "Nixon Admitted Inflation Measures Failed"

Moscow domestic radio last night carried a brief report of the Phase IV announcement. It said the Administration program "in substance boils down to attempts to curb inflation and the constant rise in prices. In his statement on this subject, President Nixon virtually admits that the Government's previous measures to abate inflation have proved unsuccessful. The President stated that the price index for consumer goods had increased by 8 per cent from December 1972 to May of this year, so that inflationary tendencies are still strong today despite the price freeze.

"President Nixon found it necessary to warn his countrymen that in the second half of this year, too, prices in the U. S. would continue to rise at a higher rate than desirable."

Proxmire Cited on "Close Economic Relations"

Another domestic broadcast reported that the Joint Economic Committee was taking testimony on increasing U. S. trade with the USSR.

It said Senator Proxmire as chairman had stated that as a result of the Nixon-Brezhnev summit talks, "the possibility of establishing close economic relations between the USSR and the U. S. has considerably increased."

Government and business witnesses, it continued, "unanimously stress the mutual advantage of expanding trade between the two countries, its favorable influence on the state of Soviet-U. S. relations and the strengthening of peace throughout the world."

Peking Cites Phase IV Criticism

Peking NCNA yesterday described Phase IV in its international English service as "another measure taken by the President to check the worsening inflation after the 60-day freeze on prices he announced last June 13."

It cited Mr. Nixon's justifications for Phase IV and quoted AP as reporting that "leading American economists generally voiced little enthusiasm Wednesday for President Nixon's economic program. They also said that the program eventually would lead to higher prices by not checking demand for items in scarce supply."

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

282

July 25, 1973

FOR IMMEDIATE RELEASE

TREASURY REFINANCING PLANS

The Treasury today announced plans for refinancing securities maturing on August 15, $4.7 billion of which are held by the general public. The new securities will consist of $2.0 billion of 7-3/4% 4-year Treasury notes, $0.5 billion of 7-1/2% 20-year bonds callable in 15 years, and $2.0 billion of 35-day September tax anticipation bills. The new securities will be sold by competitive bidding. Non-competitive tenders will also be accepted in specified amounts.

Tenders for the notes will be received until 1:30 p.m., EDST, on Tuesday, July 31. They will be an additional issue of the 7-3/4% notes of Series B-1977, dated August 15, 1970, due August 15, 1977. Non-competitive tenders from individuals and others will be accepted in amounts of $500,000 or less.

Tenders for the bonds will be received until 1:30 p.m., EDST, on Wednesday, August 1. The bonds will be dated August 15, 1973, and will mature August 15, 1993, callable by the Treasury on and after August 15, 1988. Non-competitive tenders from individuals and others will be accepted in amounts of $250,000 or less.

The bills will be auctioned on Wednesday, August 8. They will mature September 19, 1973, but may be used at face value in payment of Federal income taxes due on September 15. Non-competitive tenders from individuals and others will be accepted in amounts of $500,000 or less.

As in the last two bond auctions, awards for the bonds will be made by the "uniform-price" method in which all accepted tenders are awarded bonds at the lowest accepted price. Awards in the note and bill auctions will be made at the price specified in accepted tenders.

(OVER)

Qualified depositaries may make payment for 50% of the amount of tax anticipation bills allotted by credit to Treasury tax and loan accounts. Payment for the notes and bonds may not be made by credit to Treasury tax and loan accounts. Payment for all three issues must be made on Wednesday, August 15.

In addition to the holdings by the general public, Federal Reserve and Government accounts hold $1 billion of the securities maturing on August 15. Additional amounts of the new notes and bonds will be issued to those accounts in exchange for their existing holdings.

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

2-83

FOR IMMEDIATE RELEASE July 25, 1973

DETAILS OF TREASURY NOTE AND BOND AUCTIONS

The notes and bonds to be auctioned to the public by the Treasury to provide funds for refunding part of the $4.7 billion of publicly held notes and bonds maturing on August 15 will be:

Up to $2.0 billion of an additional amount of 7-3/4% Treasury Notes of Series B-1977, dated August 15, 1970, due August 15, 1977, with interest payable on February 15 and August 15, and

Up to $500 million of 7-1/2% Treasury Bonds of 1988-93, dated August 15, 1973, due August 15, 1993, callable at the option of the United States on any interest payment date on and after August 15, 1988 (CUSIP No. 912810 BQ0) with interest payable on February 15 and August 15.

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 securities. which total $1.0 billion.

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, July 31, 1973, and tenders for the bonds will be received up to 1:30 p.m., Eastern Daylight Saving time, Wednesday, August 1, 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 July 30 for the notes and July 31 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 99.01 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. No tenders will be accepted which result in original issue discount for tax purposes.

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 $500,000 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 Wednesday, August 15, 1973 , at the Federal Reserve Bank or Branch or at the Office of the Treasurer of the United States in cash, 8-1/8% Treasury Notes of Series B-1973 or 4% Treasury Bonds of 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 Friday, August 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, Wednesday, August 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, July 31, 1973, in the case of the notes, and until after 1:30 p.m., Eastern Daylight Saving time, Wednesday, August 1, 1973, in the case of the bonds.

Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

234

ATTENTION: FINANCIAL EDITOR

July 25, 1973

FOR IMMEDIATE RELEASE

TREASURY OFFERS $2 BILLION IN SEPTEMBER
TAX ANTICIPATION BILLS

The Treasury Department, by this public notice, invites tenders for $2,000,000,000, or thereabouts, of 35-day Treasury bills, to be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided. The bills of this series will be dated August 15, 1973, and will mature September 19, 1973. They will be accepted at face value in payment of income taxes due on September 15, 1973, and to the extent they are not presented for this purpose the face amount of these bills will be payable without interest at maturity. Taxpayers desiring to apply these bills in payment of September 15, 1973 income taxes may submit the bills to a Federal Reserve Bank or Branch or to the Office of the Treasurer of the United States, Washington, not more than fifteen days before that date. In the case of bills submitted in payment of income taxes of a corporation they shall be accompanied by a duly completed Form 503 and the office receiving these items will effect the deposit on September 15, 1973. In the case of bills submitted in payment of income taxes of all other taxpayers, the office receiving the bills will issue receipts therefor, the original of which the taxpayer shall submit on or before September 15, 1973, to the District Director of Internal Revenue for the District in which such taxes are payable. The bills will be issued in bearer form only, and in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Wednesday, August 8, 1973. Tenders will not be received at the Treasury Department, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

All bidders are required to agree not to purchase or to sell, or to make any agreements with respect to the purchase or sale or other disposition of any bills of this issue at a specific rate or price, until after one-thirty p.m., Eastern Daylight Saving time, Wednesday, August 8, 1973.

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 $500,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on August 15, 1973.

Any qualified depositary will be permitted to make settlement by credit in its Treasury tax and loan account for not more than 50 percent of the amount of Treasury bills allotted to it for itself and its customers.

Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder must include in his income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

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

235

OWNERSHIP OF THE AUGUST 15, 1973 MATURITIES

(In millions of dollars)

	8-1/8% Note	4% Bond	TOTAL
Commercial banks...............	939	1,222	2,161
Mutual savings banks...........	33	32	65
Insurance companies:			
Life...........................	1	18	19
Fire, casualty and marine....	24	117	141
Total, insurance companies.	25	135	160
Savings and loan associations..	24	124	148
Corporations...................	49	659	708
State and local governments....	33	386	419
All other private investors....	409	608	1,017
Total, privately held........	1,512	3,166	4,678
Federal Reserve Banks and Government Accounts..........	327	728	1,055
Total outstanding..............	1,839	3,894	5,733

Office of the Secretary of the Treasury
Office of Debt Analysis

July 25, 1973

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

23C

FOR RELEASE ON DELIVERY

STATEMENT OF MARTIN J. BAILEY, DEPUTY ASSISTANT SECRETARY OF THE TREASURY FOR TAX POLICY, ON S. 1122, S. 1593, and S. 1879 BEFORE THE SUBCOMMITTEE ON ENVIRONMENT, SENATE COMMITTEE ON COMMERCE, July 26, 1973 at 9:30 a.m.

Mr. Chairman and members of the Subcommittee, I appreciate the opportunity of presenting the Treasury Department's comments on S. 1122, S. 1593, and S. 1879. Not all of the provisions of the bills are of direct concern to this Department, and as to those that are, after one initial exception I will devote all my comments to those dealing with taxation.

S. 1593 would authorize the Administrator of the Environmental Protection Agency to make low interest rate loans to States and localities for up to 100 percent of the purchase price of solid waste collection and separation systems that encourage the flow of recycled and recyclable materials in interstate commerce. If certain objectives are met, the Administrator may reduce the payment of principal and interest by up to one-half in any given year.

The loan provisions do not meet the criteria the Administration believes should be met by Federal credit programs. There is no requirement that the borrower first make a reasonable effort to borrow from other sources. The borrower's credit worthiness is not a criterion. Without reasonable credit requirements, a loan program tends to become a disguised grant program.

Fixed interest ceilings on Federal loans, such as the 3 percent maximum contained in the bill, have had perverse and unintended results as market rates of interest move up and down. For one thing, they lead to extraordinary demands for Federal loan funds when inflationary pressures and interest rates are high. There would inevitably be inequities among borrowers using the program at different times.

Our reservations as to the proposed loan program are so great that we must strongly oppose it.

The tax program incorporated in S. 1593 and S. 1879 are designed to encourage recycling of used products, reduce the use of energy and virgin raw materials, and internalize disposal costs of products, except consumables.

S. 1593 contains three basic tax provisions designed to encourage recycling of used materials and reduction of the use of virgin materials. The first would grant the purchaser an additional deduction from gross income eq to a specified percentage of the amounts paid to purchase recyclable or recycled solid waste materials for manufacture into useful raw materials or salable products. The percentage would vary with the particular type of solid waste material. Since the objective is to expand recycling, the deduction would be limited to purchase costs that exceed five-year average yearly costs. Associated with the deduction just mentioned is a further deduction of one-half of the specified percentage of the amount of purchase costs not in excess of the five-year average. The latter deduction would be conditioned on any tax savings resulting therefrom being used for the expansion of recycling facilities, expanded use of recyclable or recycled materials, or pollution control devices.

The second tax feature of the bill is the granting of five-year amortization to solid waste recycling facilities, a privilege now available

237

for new investment in pollution control facilities used in connection with a property in operation before January 1, 1969.

Finally, the bill would provide that to the extent that energy costs involved in producing products from virgin resources exceed the costs for producing comparable materials from recycled materials, that excess would be subtracted from the deduction allowed for the purchase of such non-recycled material. If the energy costs for recycled materials purchased were greater, the excess would be subtracted from the deductible cost of the recycled material. The disallowed expense could not exceed one-half of the cost of the material purchased.

The tax provisions of S. 1879 are related initially to the disposal cost of products, except consumables, with the objective of "internalizing" such costs. Recycling of used materials is to be fostered by payments for such use from the funds collected from the disposal charge.

The Administrator of the Environmental Protection Agency would be required to establish a schedule of national disposal cost charges. Although not so called in the bill, the charges would be excise taxes on the sale of manufactured products. These charges would apply to all products in their final configuration, except consumables, which have a service life of less than thirty years. The basic charge would be at the rate of one cent per pound or, at the Administrator's discretion, at a rate equal to the average per pound disposal cost of mixed municipal, household, institutional and commercial waste. An additional charge equal to all disposal costs in excess of the basic charge would be imposed whenever the Administrator finds such additional costs can be reasonably attributed to specific products. Receipts from the charges would be deposited in an Environmental Trust Fund. The Fund, in turn, would be used for two purposes, after payment of moderate administrative costs. When a manufacturer acquired any recovered material for use in the manufacture of a product, following disposal by the consumer, and upon which a disposal charge is imposed, a payment would be made to him from the Fund equal to the disposal cost of such material. Any amount then remaining in the Fund would be distributed to the States and political subdivisions using the formula for payments under the general revenue sharing program pursuant to the State and Local Fiscal Assistance Act of 1972.

S. 1122 has no tax provisions, so I have nothing to add to the written comment you received from the Department earlier this week. I turn now to our reactions to the tax provisions of S. 1593 and S. 1879.

For nearly a decade, the Treasury Department has been involved in the evaluation of plans to advance the control of pollution and recycling of used materials which, in turn involved some tax feature. Originally, there were many proposals to give credits or fast depreciation for capital expenditures for air or water pollution control equipment. In the last several years, the emphasis has been on tax provisions related to the amount of pollution sent into the environment or incentives to recycle used materials. In the main, we have opposed such proposals. Some proposals were just too complicated to be workable, some would not have been effective, or would have had the wrong effect, and some we thought would constitute poor tax policy. Many were deficient in two or three respects.

The tax provisions of S. 1593 and S. 1879 also cause considerable concern as to their complexity, effectiveness, and tax policy implications.

238

There are a number of aspects of the tax provisions that seem to us to be so complex or indefinite as to pose extensive problems for both the Government and business firms. For example, the disposal cost charges under S. 1879 begin with a stated definite amount, one cent a pound, but there are three possible adjustments to the one cent rate by the Administrator of the Environmental Protection Agency. These discretionary provisions, in part, are inserted to permit the charges to be tailored to differing conditions for individual products. But, if the Administrator were to decide to exercise his authority, he would be faced with a formidable task of drawing definitions for "products" and justifying differences in treatment as between products to the producers or manufacturers who have a vital interest in the competitive effects of the charges.

While it is true that the work of deciding any variation from the basic one cent per pound charge would not fall on the Treasury Department, we have a prime interest in trying to keep our tax system as reasonable and effective as possible. Taxes which are complex or which have unreasonable effects do not aid in achieving voluntary compliance which is so vital to the method under which our tax system operates.

As it affects the businessman taxpayer who would operate under the tax provisions of these bills, there also are potential complexities. Again, let us consider the disposal charge proposal of S. 1879. From our experience with excise taxes, we are quite certain that if differing disposal charges were set forth for specified products, there would be great difficulty on the part of the taxpayers in identifying some of their specific products as being in one category or another. This would be more than a "nuisance" problem to the businessmen concerned. The charges would be levied on an array of products used by business and consumers that would take many pages to list in detail. An error of classification on the part of a producer could lead to the build-up of a large unpaid liability as products were shipped out day by day. "Making good" on such an error could be much more burdensome than any income tax adjustment.

Consider also the energy consumption provision of S. 1593. This would be applicable for "each major material" used by a manufacturer. Assuming that regulations have been issued to clarify what constitutes a "major material", the producer still has to classify his records of purchases according to the energy cost schedule published by the Administrator of the Environmental Protection Agency. In addition, purchases would have to be checked to see if changes in relative prices or technology resulted in movement in or out of the "major category".

A detailed evaluation of the possible effectiveness of the tax proposals in achieving their desired ends of stimulating recycling, reducing the use of virgin materials, and internalizing disposal costs is not possible without an extensive series of studies. But it still is possible to give some evaluation of the proposals. It is obvious, of course, that the tax proposals would have some effect in changing the relative attractiveness of recycling used materials. The real question is, how much effect and would the result be a desirable one.

In this connection, a most important factor would be the percentages of the cost of purchases of recyclable materials to be allowed as an income tax deduction as set forth in S. 1593. The three percentage rates specified are 15, 18, and 22. This provision presumes that there are measurable, precisely known differences in the three categories of products listed and that slight differences are needed to achieve the level of recycling desired. We have doubts that such precise knowledge exists. For one thing, supply and demand conditions for recyclable materials vary from one geographic district to another. In one the percentages might stimulate recycling, in another, have no result. Or the effect everywhere might be slight. Then, too, recycling of some materials is so small as to make difficult determination of what a change in cost factors might do.

Here again, I would like to repeat my previous remark about our concern in keeping the tax system reasonable and effective. A tax provision designed to spur recycling which was ineffective, or aided producers in some areas but not in others, would not be an improvement to the tax system.

I realize that, while I am being critical of the tax provisions of these two bills, some of you may remember that the Administration has made two tax proposals with a related objective. In 1970, we proposed a tax on the lead in additives for gasoline as a means of facilitating the program to reduce automotive air pollution. In 1972, we proposed a tax on sulphur emitted into the atmosphere to strengthen the incentive to fuel users to reduce air pollution from stationary sources. It is our experience with these recommendations that serve as a background for many of my comments here today. Incidentally, neither recommendation was voted on by the Congress, and only the lead tax proposal received any committee consideration.

Our two recommendations differed from the tax proposals in these bills in that they were very, very limited in scope. As a result, we were able to study the situation in depth before making any recommendations and tried to tailor the recommendation strictly to the two specific situations involved. Even so, we were criticized severely in the lead tax case for neglecting the needs of persons owning old cars requiring premium gasoline.

Whether a recycling or other tax proposal falls within the ambit of reasonable tax policy depends on two or three main considerations. First, does it deal directly and effectively with a specific problem, without creating serious new problems of its own? Second, is it equitable? Third, can it be administered? Thus, in proposals to encourage recycling, one first has to ask, what specific problem or problems are these proposals going to solve? Then, one has to consider the probable effect on producers of virgin materials versus users of recycled materials, the effect on consumers of the taxed products as consumers, and the effect on consumers as the payers of the aggregate of our taxes.

To evaluate the reasonableness of the proposed deduction in S. 1593 for producers' costs of purchased recyclable materials, plus the special treatment for recycling facilities, we should really know what effect these provisions would have on the use of virgin materials. Then we must decide whether the shift toward recycling would solve any real problems or would contribute to economic growth and well-being. I don't know the answers for the numerous products covered by the bill, but it certainly seems to me that present elevated prices for many minerals, such as for example gold and silver, should stimulate recycling without further need for a subsidy as proposed by S. 1593. In this case, the subsidy might

246

well be considered a windfall. Then, too, why should we subsidize recycling of textiles made from natural fibers? Cotton, flax, silk, and wool are not depletable resources, and disposal of their waste products presents no national problem. One may question the need or desirability of reducing the receipts of those producing these fibers.

The notion of "internalization" of the costs of disposal of items, other than consumables, in the manner proposed by S. 1879, gives us difficulty, as does the failure to S. 1593 to apply this notion at all.

Internalization of the full costs of production and use of a product--making polluters pay the costs of their pollution or its control--is a desirable objective to which this Administration subscribes. One of the criticisms that may be made of S. 1593 is that the deduction for recycling would shift the costs of removing used materials from the environment from the "polluter" to the taxpayers in general.

Much already is being done in the right direction in this respect. Water and air pollution controls being required of manufacturing plants have the effect of placing the costs of pollution previously falling on the public in general on the purchasers of the output of the plants. Automobile operators are paying for reduction of air pollution in the form of higher new car prices to reflect emission control devises. However, S. 1879 goes beyond that and would doubly "internalize" many disposal costs that are already borne by the producer of wastes.

Most disposal costs are paid for by those discarding their used paper, glass, etc. Sometimes they pay directly for removal. In other cases, they pay an average per household cost in their property taxes. As a consequence, the initial effect of the proposed disposal charge system would be to double the disposal cost to the consumer and businesses for most of his purchases affected by the charge. In the subsequent stage, some of this double charge would be removed. Part of the disposal cost credit given to producers might be reflected in the prices paid for the recovered products or partly in the prices of the newly made products. Disposal charge collections not paid to producers using recovered materials would be returned to States and localities. However, the revenue sharing allocation formula for any governmental unit is likely to be roughly related, at the best, to what individuals and business pay for disposal costs in private charges and taxes. Even if the procedure set forth in S. 1879 could be considered to result in removal of the initial effect of double disposal costs, the removal would always be one step behind collection of the tax so that there would be permanent one time additional disposal charge.

To sum up,our general position as to the use of the tax system to encourage recycling and related environmental objectives is one of extreme caution and scepticism. Last year, for instance, we did considerable work on a recycling proposal similar to the cost deduction feature of S. 1593. After much consideration, we decided that the economic uncertainties associated with the approach suggested, plus the administrative and compliance problems, were such that it would be better not to go ahead with such a program. Indeed, we concluded that such a law could not be effectively administered. In those cases where wastes present real unsolved problems, we prefer to deal with these problems directly, as is done for example in the provisions of the Hazardous Waste Management Act of 1973,proposed by the President and introduced into the Senate as S. 1086.

241

The risk that environmentally related tax proposals will fail to attain good objectives and will burden activities not meant to be affected are so great that broad programs are almost certain to be unacceptable. And, as our experience has shown, even programs with very narrow coverage and objectives are difficult to formulate to achieve the desired objective. An acceptable environmental tax also must be quite clear as to its applicability to all situations affected, and place a reasonable economic burden on business and the public in general. These criteria also are not easy to satisfy in environmental tax plans.

Another general comment that might be made about the use of taxes for environmental objectives involves our concern over the proliferation of tax proposals to achieve all kinds of objectives. It seems so often that when someone wishes to attain an improvement in an economic situation, their first impulse is to try to use the tax system to do it. We believe that this impulse should be generally held back. The main objective of the tax system is to raise revenue for general Governmental expenditures. Any additional uses should be few in number and should be selected only after the most stringent evaluation. Otherwise, the tax system could become so extensive and so complex that taxpayers would be unduly burdened with complex rules and the administrative machinery would be extended to many times that at present. If we use tax credits too lavishly, we could be building a bigger and bigger tax administration to collect less and less revenue.

One final thought. As virgin materials and energy become scarcer and more expensive, an incentive is created to dispose of more used materials through the recycling process, to use fewer virgin materials, and to conserve on the use of energy. Our long continued profligate use of materials and energy has been a reflection of their low cost in the past. But if there is to be a change in the adequacy of supplies, price increases will help change our habits. Where market prices fail to correct specific problems, it is best to tailor our responses carefully to those problems. For example, national energy policy is being formulated on a comprehensive basis to deal with energy problems. Furthermore, the tightening of direct controls over pollution will help internalize costs not now reflected in market prices.

The Environmental Protection Agency has been making a number of studies and analyses of waste disposal and recycling under the authority of the Solid Waste Disposal Act. These studies were discussed before your Subcommittee on the Environment on June 22 by Mr. Samuel Hale, Jr., Deputy Assistant Administrator for Solid Waste Management Programs of the Environmental Protection Agency. At the end of his remarks he stated, "In summary, we find that the problems of resource recovery are both technical and economic, and vary from waste material to waste material. Any single measure such as a subsidy, tax credit or construction grant would not be effective for all wastes, and in some cases would involve large "windfalls" and not result in significant new recycling."

We believe that Mr. Hale's summation succinctly states the uncertainty as to the effect of the proposed credit or subsidy in encouraging recycling. We will, of course, be ready to review recommendations for waste recovery programs that Mr. Hale indicated in his testimony will be forthcoming, if such recommendation involve tax provisions.

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

242

FOR IMMEDIATE RELEASE

JULY 26, 1973

JOINT STATEMENT OF GEORGE P. SHULTZ, SECRETARY OF THE TREASURY
AND
ROY L. ASH, DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET
ON BUDGET RESULTS FOR FISCAL YEAR 1973

SUMMARY

The June Monthly Statement of Receipts and Outlays of the United States Government is being released today. It shows the following preliminary budget totals for fiscal year 1973, which ended on June 30:

Receipts of $232.2. Receipts were $0.2 billion above the June 1 Mid-Session Review, and $7.2 billion above the January budget estimate.

Outlays of $246.6. Outlays were $3.2 billion below the Mid-Session and January estimates.

A budget deficit of $14.4 billion. This is $3.4 billion below the Mid-Session Review estimate and $10.4 billion below the January budget estimate.

On a full-employment basis, the 1973 budget showed a surplus of $1 billion. The decline in 1973 outlays is largely responsible for the shift to a full-employment surplus. On a full-employment basis, receipts and outlays are now estimated to be $246 billion and $245 billion, respectively.

BUDGET TOTALS, FISCAL YEARS 1972 AND 1973
(In billions of dollars)

	Fiscal Year 1972 Actual	Fiscal Year 1973 January Budget	Fiscal Year 1973 Mid-Session Review	Fiscal Year 1973 Actual
BUDGET RECEIPTS............	208.6	225.0	232.0	232.2
BUDGET OUTLAYS.............	231.9	249.8	249.8	246.6
DEFICIT (-).................	-23.2	-24.8	-17.8	-14.4
FULL-EMPLOYMENT RECEIPTS....	225.0	245.0	246.0	246.0
FULL-EMPLOYMENT OUTLAYS.....	228.9	247.3	247.8	245.0
FULL-EMPLOYMENT SURPLUS OR DEFICIT (-)...............	-3.9	-2.3	-1.8	1.0

July 1973

RECEIPTS

Budget receipts in fiscal year 1973 increased $23.5 billion from 1972 and were $7.2 billion above the January estimate. Income tax receipts accounted for most of the increase over the January estimate, with individual income taxes $3.9 billion higher and corporate income taxes up $2.6 billion. These increases result in part from the large increases in personal income and corporate profits that accompanied the rapid economic expansion and the high rates of inflation experienced in the last half of the fiscal year. In addition, tax collection experience suggests that receipts at a given level of Gross National Product are higher than estimated in January.

Receipts from sources other than income taxes were about $0.8 billion above the budget estimate. Unemployment insurance taxes, excise taxes, estate and gift taxes, and customs duties were all higher, while employment taxes and contributions were lower than estimated in January.

OUTLAYS

Total outlays in fiscal year 1973 were $14.7 billion over the prior year, but $3.2 billion short of the January budget estimates. The change in the total was the net result of a few large decreases, which were partially offset by various relatively small increases. The principal decreases below the <u>January estimates</u> were:

- Outlays by the <u>Department of Health, Education, and Welfare</u> were $1,571 million less than the estimate in the January budget. Most of this shortfall occurred in two programs. Public assistance grants to match State expenditures for social and individual services were $831 million less than the January estimate because the previously anticipated level of State activity did not materialize. Special benefits for disabled coal miners were $540 million less than the budget estimate because fewer claims were filed and processing took longer than expected. Payments from the Social Security trust funds were slightly lower than estimated.

- <u>Department of Defense Military Functions and Military Assistance</u> outlays were $944 million below the budget estimate. This largely reflects reductions in personnel and operations, which were partially offset by increases for research, development, test and evaluation.

- Outlays by the <u>Department of Labor</u> were $926 million below the budget estimate. Outlays for the unemployment trust fund were $747 million lower than estimated in January because the insured unemployment rate has been lower than expected.

- Preliminary net outlays of the <u>United States Postal Service</u> were $281 million below the January estimate. This decrease is mainly due to a lower capital expenditure program which was partially offset by higher costs of operations.

244

The major increases above the January estimates were:

- Outlays by the General Services Administration were $409 million above the budget estimate. Proprietary receipts, which are offset against outlays, were lower than estimated, largely because the Congress did not enact legislation authorizing sales of excess stockpile materials.
- NASA outlays were $255 million above the budget estimate, largely as a result of a reduction in accounts payable and a schedule of payments consistent with completion and contract phaseout of Apollo and other programs.
- HUD outlays were $235 million above the budget as a result of an increase in defaults under the Federal Housing Administration mortgage insurance programs, and a shortfall in sales under the Government National Mortgage Association tandem plan.
- The Veterans Administration exceeded the budget estimate by $210 million in large part because of increased utilization of education benefits under the G.I. Bill.
- Outlays by the Atomic Energy Commission exceeded the budget estimates by $199 million, primarily as a result of lower revenues than had been projected in January and higher than estimated expenditures for plant and capital equipment.

- Within the <u>Department of Agriculture</u>, outlays for the Commodity Credit Corporation and the Farmers Home Administration were higher than estimated in January; these increases were partly offset by legislation removing the loan activities of the Rural Electrification Administration from the budget and shortfalls in other programs.

BUDGET RECEIPTS AND OUTLAYS

(Fiscal Years. $ in millions)

Description	1972 Actual	1973 Budget Estimate	1973 Actual	1973 Change from Budget Estimate
Receipts by source				
Individual income taxes......	94,737	99,400	103,261	+3,861
Corporation income taxes.....	32,166	33,500	36,096	+2,596
Social insurance taxes and contributions:				
Employment taxes and contributions............	46,120	55,610	54,870	-740
Unemployment insurance.....	4,357	5,262	6,063	+801
Contributions for other insurance and retirement..	3,437	3,667	3,612	-55
Excise taxes................	15,477	15,970	16,272	+302
Estate and gift taxes........	5,436	4,600	4,898	+298
Customs.....................	3,287	3,000	3,175	+175
Miscellaneous...............	3,633	3,975	3,944	-31
Total receipts............	208,649	224,984	232,192	+7,207
Outlays by major agency				
Legislative Branch and the Judiciary..................	660	719	724	+5
Executive Office of the President..................	54	96	60	-35
Funds Appropriated to the President:				
Appalachian regional development programs......	241	268	264	-4
International security assistance:				
Military assistance programs...............	806	600	529	-71
Economic supporting assistance programs.....	717	563	642	+79
Multilateral assistance....	472	567	510	-58
Bilateral assistance.......	848	663	515	-147
Office of Economic Opportunity..............	1,052	754	800	+46
Other......................	140	457	464	+7
Agriculture:				
Commodity Credit Corporation, foreign assistance and special export programs.................	5,066	4,315	4,517	+202
Other......................	5,869	5,809	5,671	-139

Description	1972 Actual	1973 Budget Estimate	1973 Actual	1973 Change from Budget Estimate
Outlays by major agency--Continued:				
Commerce	1,250	1,318	1,363	+44
Defense:				
Military	75,151	74,200	73,327	-873
Civil	1,530	1,753	1,704	-49
Health, Education, and Welfare	71,780	83,580	82,009	-1,571
Housing and Urban Development	3,642	3,364	3,600	+235
Interior	1,256	-2,247	-2,219	+28
Justice	1,180	1,496	1,531	+35
Labor	10,033	9,563	8,637	-926
State	536	621	592	-29
Transportation	7,531	8,042	8,184	+142
Treasury:				
Interest on the public debt	21,849	24,200	24,167	-33
General revenue sharing	--	6,786	6,636	-149
Other	275	264	178	-87
Atomic Energy Commission	2,392	2,194	2,393	+199
Environmental Protection Agency	763	1,148	1,113	-35
General Services Administration	589	40	448	+409
National Aeronautics and Space Administration	3,422	3,061	3,316	+255
Veterans Administration	10,710	11,758	11,968	+210
Civil Service Commission	3,773	4,420	4,601	+181
United States Postal Service	1,772	1,710	1,429	-281
Railroad Retirement Board	2,123	2,445	2,437	-8
Small Business Administration	452	1,313	1,346	+33
U.S. Information Agency	198	207	206	-1
Other Independent Agencies	1,600	1,631	1,316	-315
Allowances for:				
Pay increases (excluding Department of Defense)	--	25	--	-25
Contingencies	--	475	--	-475
Undistributed intrabudgetary transactions:				
Federal employer contributions to retirement funds	-2,768	-2,980	-2,926	+53

Description	1972 Actual	1973 Budget Estimate	1973 Actual	1973 Change from Budget Estimate
Outlays by major agency--Continued:				
Undistributed intrabudgetary transactions--Continued:				
Interest credited to certain Government accounts.................	-5,089	-5,401	-5,446	-45
Total outlays............	231,876	249,796	246,603	-3,193
Budget surplus (+) or deficit (-).............	-23,227	-24,812	-14,412	+10,400

NOTE: Detail will not necessarily add to totals because of rounding.

FOR IMMEDIATE RELEASE: July 26,1973

247

JOINT STATEMENT
OF GEORGE P. SHULTZ, SECRETARY OF THE TREASURY
AND
ROY L. ASH, DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET
ON
THE BUDGET RESULTS FOR FISCAL YEAR 1973

The budget results for fiscal year 1973 are as follows:

--Outlays; $246.6 billion

--Receipts: $232.2 billion

--Deficit: $14.4 billion

As shown by the attached table, total outlays were $3.2 billion below the level estimated in the January budget and the June 1 Mid-Session Review, and the deficit was cut from an estimated $17.8 billion to $14.4 billion.

Defense spending was almost $1 billion less than estimated. Outlays for a number of civilian agencies also fell below previous estimates.

Last October, the President committed his Administration to hold Federal expenditures in 1973 under $250 billion. That commitment has been met. As a result, the budget is beginning to provide needed fiscal restraint.

Receipts slightly exceeded the estimate in the June Review. As noted at that time, vigorous economic expansion and higher than anticipated inflation were the primary factors responsible for the substantial increase above the January estimate of receipts.

On a full-employment basis, the budget showed a surplus of $1 billion in 1973. The improvement in the full-employment balance is further welcome evidence that we are achieving the increased fiscal restraint called for by current economic conditions. With continued cooperation of the Congress, we can look forward to an actual balance in the budget in 1974.

Details of the 1973 results will appear in the Treasury's Monthly Statement of Receipts and Outlays, scheduled for release on July 25.

248

BUDGET TOTALS, FISCAL YEARS 1972 AND 1973
(In billions of dollars)

	Fiscal Year 1972 Actual	Fiscal Year 1973 January Budget	Fiscal Year 1973 Mid-Session Review	Fiscal Year 1973 Actual
BUDGET RECEIPTS.............	208.6	225.0	232.0	232.2
BUDGET OUTLAYS...............	231.9	249.8	249.8	246.6
DEFICIT (-)..................	-23.2	-24.8	-17.8	-14.4
FULL-EMPLOYMENT RECEIPTS....	225.0	245.0	246.0	246.0
FULL-EMPLOYMENT OUTLAYS.....	228.9	247.3	247.8	245.0
FULL-EMPLOYMENT SURPLUS OR DEFICIT (-)...............	-3.9	-2.3	-1.8	1.0

July 1973

249

Preliminary[1] Statement of
Receipts and Outlays of the United States Government

for period from July 1, 1972, through June 30, 1973

(In thousands, hundreds of dollars not printed, therefore details may not add to totals)

TABLE 1--SUMMARY (IN MILLIONS)

Fiscal Year	Budget Receipts and Outlays			Means of Financing			
	Receipts	Outlays	Budget Surplus (+) or Deficit (-)	By Borrowing from the Public	By Reduction of Cash and Monetary Assets Increase (-)	By Other Means	Total Budget Financing
Estimated 1974[2]	$266,000	$268,700	-$2,700	$6,517	....	-$3,817	$2,700
Estimated 1973[2]	232,000	249,800	-17,800	17,988	$3,000	-3,188	17,800
Actual 1973 (twelve months)	232,192	246,603	-14,412	19,275	-1,172	-3,691	14,412
Actual 1972	208,649	231,876	-23,227	19,442	-2,470	6,255	23,227

TABLE II--SUMMARY OF BUDGET RECEIPTS AND OUTLAYS (In thousands)

Classification	Total Budget This Fiscal Year to Date[3]	Budget Estimates[2]
RECEIPTS		
Individual income taxes	$103,260,527	$103,000,000
Corporation income taxes	36,096,144	36,000,000
Social insurance taxes and contributions:		
Employment taxes and contributions	54,870,061	55,300,000
Unemployment insurance	6,063,441	5,700,000
Contributions for other insurance and retirement	3,612,261	3,700,000
Excise taxes	16,271,536	16,100,000
Estate and gift taxes	4,898,489	5,000,000
Customs	3,175,268	3,200,000
Miscellaneous	3,944,115	3,900,000
Total	232,191,842	232,000,000
OUTLAYS		
Legislative Branch	540,433	500,000
The Judiciary	183,325	200,000
Executive Office of the President	60,437	100,000
Funds Appropriated to the President:		
International security assistance	1,171,263	1,200,000
International development assistance	1,025,102	1,100,000
Other	1,528,141	1,500,000
Agriculture Department	10,188,128	10,600,000
Commerce Department	1,362,658	1,300,000
Defense Department:		
Military	73,326,834	74,200,000
Civil	1,703,903	1,700,000
Health, Education, and Welfare Department	82,008,658	82,700,000
Housing and Urban Development Department	3,599,614	3,700,000
Interior Department	-2,219,073	-1,900,000
Justice Department	1,530,786	1,500,000
Labor Department	8,636,672	9,000,000
State Department	592,097	600,000
Transportation Department	8,183,852	8,200,000
Treasury Department:		
Interest on the public debt	24,167,493	24,200,000
General revenue sharing	6,636,369	6,600,000
Other	177,664	300,000
Atomic Energy Commission	2,393,009	2,300,000
Environmental Protection Agency	1,112,675	1,100,000
General Services Administration	448,455	400,000
National Aeronautics and Space Administration	3,315,698	3,300,000
Veterans Administration	11,967,917	12,000,000
Other independent agencies	11,334,200	11,600,000
Allowances, undistributed	....	....
Undistributed intrabudgetary transactions:		
Federal employer contributions to retirement funds	-2,926,495	-3,000,000
Interest credited to certain Government accounts	-5,446,456	-5,400,000
Total	246,603,359	249,800,000
Surplus (+) or deficit (-)	-14,411,517	-17,800,000

See footnotes on page 3.

TABLE III--BUDGET RECEIPTS AND OUTLAYS (In thousands)

Classification of RECEIPTS	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Gross Receipts	Refunds (Deduct)	Net Receipts	Gross Receipts	Refunds (Deduct)	Net Receipts	Gross Receipts	Refunds (Deduct)	Net Receipts
Individual income taxes:									
Withheld	[4] $9,171,397			$98,096,576			$83,200,366		
Other	[4] 3,747,049			27,031,095			25,678,820		
Total--Individual income taxes	12,918,446	$597,323	$12,321,123	125,127,670	$21,867,143	$103,260,527	108,879,186	$14,142,570	$94,736,616
Corporation income taxes	8,926,977	187,536	8,739,442	38,988,895	2,892,751	36,096,144	34,925,546	2,759,629	32,165,916
Social insurance taxes and contributions:									
Employment taxes and contributions:									
Federal old-age and survivors ins. trust fund:									
Federal Insurance Contributions Act taxes	[4] 3,245,264	....	3,245,264	35,039,643	373,186	34,666,457	30,240,268	348,656	29,891,612
Self-Employment Contributions Act taxes	[4] 110,887	....	110,887	1,905,829	....	1,905,829	1,643,656	....	1,643,656
Deposits by States	[5] -407,023	....	-407,023	4,140,259	....	4,140,259	3,596,457	....	3,596,457
Total--FOASI trust fund	2,949,128	....	2,949,128	41,085,731	373,186	40,712,545	35,480,381	348,656	35,131,725
Federal disability insurance trust fund:									
Federal Insurance Contributions Act taxes	[4] 415,810	....	415,810	4,628,666	50,626	4,578,040	4,106,992	47,361	4,059,631
Self-Employment Contributions Act taxes	[4] 10,774	....	10,774	252,481	....	252,481	225,787	....	225,787
Deposits by States	153,306	....	153,306	547,121	....	547,121	489,577	....	489,577
Total--FDI trust fund	579,890	....	579,890	5,428,269	50,626	5,377,643	4,822,357	47,361	4,774,996
Federal hospital insurance trust fund:									
Federal Insurance Contributions Act taxes	[4] 739,155	....	739,155	6,659,885	55,044	6,604,841	4,495,731	51,315	4,444,416
Self-Employment Contributions Act taxes	[4] 23,298	....	23,298	212,347	....	212,347	162,722	....	162,722
Receipts from railroad retirement account	....	....	....	61,222	....	61,222	63,782	....	63,782
Deposits by States	278,738	....	278,738	718,883	....	718,883	533,753	....	533,753
Total--FHI trust fund	1,041,191	....	1,041,191	7,652,338	55,044	7,597,294	5,255,988	51,315	5,204,673
Railroad retirement accounts:									
Railroad Retirement Tax Act taxes	116,537	25	116,512	1,183,234	655	1,182,579	1,008,994	611	1,008,383
Total--Employment taxes and contributions	4,686,746	25	4,686,721	55,349,572	479,511	54,870,061	46,567,719	447,943	46,119,776
Unemployment insurance:									
Unemployment trust fund:									
State taxes deposited in Treasury	80,358	....	80,358	4,627,851	....	4,627,851	3,226,286	....	3,226,286
Federal Unemployment Tax Act taxes	7,839	2,545	5,294	1,334,296	18,772	1,315,525	1,024,069	13,200	1,010,869
Railroad Unemployment Ins. Act contributions	20,863	....	20,863	120,065	....	120,065	119,516	....	119,516
Total--Unemployment trust fund	109,060	2,545	106,515	6,082,213	18,772	6,063,441	4,369,871	13,200	4,356,671
Contributions for other insurance and retirement:									
Federal supplementary medical ins. trust fund:									
Premiums deducted from benefit payments	99,589	....	99,589	1,192,958	....	1,192,958	1,114,521	....	1,114,521
Premiums collected by Social Security Admin.	1,985	....	1,985	84,168	....	84,168	87,588	....	87,588
Premiums deposited by States	9,634	....	9,634	149,350	....	149,350	137,943	....	137,943
Total--FSMI trust fund	111,208	....	111,208	1,426,476	....	1,426,476	1,340,052	....	1,340,052
Federal employees retirement contributions:									
Civil service retirement and disability fund	176,115	....	176,115	2,134,871	....	2,134,871	2,046,962	....	2,046,962
Foreign service retirement and disability fund	764	....	764	9,008	....	9,008	8,372	....	8,372
Other	66	....	66	873	....	873	3,103	....	3,103
Total--Federal employees retirement contributions	176,944	....	176,944	2,144,752	....	2,144,752	2,058,437	....	2,058,437

See footnotes on page 3.

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

See footnotes on page 3.

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of RECEIPTS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Gross Receipts	Refunds (Deduct)	Net Receipts	Gross Receipts	Refunds (Deduct)	Net Receipts	Gross Receipts	Refunds (Deduct)	Net Receipts
Social insurance taxes and contributions--Continued									
Contributions for other insurance and retirement--Continued									
Other retirement contributions:									
Civil service retirement and disability fund	$3,275	....	$3,275	$41,033	....	$41,033	$38,833	....	$38,833
Total--Contributions for other insurance and retirement	291,428	....	291,428	3,612,261	....	3,612,261	3,437,322	....	3,437,322
Total--Social insurance taxes and contributions	5,087,233	$2,570	5,084,663	65,044,045	$498,283	64,545,762	54,374,912	$461,143	53,913,769
Excise taxes:									
Miscellaneous excise taxes	870,434	11,356	859,078	10,006,173	158,249	9,847,924	10,561,752	1,055,925	9,505,827
Airport and airway trust fund	66,040	75	65,965	759,790	1,632	758,159	650,151	1,499	648,652
Highway trust fund	487,300	15,000	472,300	5,817,956	152,502	5,665,454	5,635,133	312,710	5,322,423
Total--Excise taxes	1,423,774	26,431	1,397,343	16,583,919	312,383	16,271,536	16,847,036	1,370,134	15,476,901
Estate and gift taxes	321,783	5,251	316,532	4,957,282	58,793	4,898,489	5,489,969	54,107	5,435,862
Customs duties	274,241	13,482	260,759	3,294,992	119,724	3,175,268	3,394,299	107,393	3,286,906
Miscellaneous receipts:									
Deposits of earnings by Federal Reserve Banks	361,452	....	361,452	3,495,069	....	3,495,069	3,252,197	....	3,252,197
All other	22,196	3	22,192	449,551	505	449,046	380,538	147	380,391
Total--Miscellaneous receipts	383,648	3	383,644	3,944,620	505	3,944,115	3,632,735	147	3,632,589
Total--Budget receipts	29,336,102	832,596	28,503,506	257,941,424	25,749,582	232,191,842	227,543,683	18,895,124	208,648,559

FOOTNOTES

[1] This statement is preliminary and is based on reports from disbursing, collecting and administrative agencies of the Government. Final reports of Government disbursing, collecting and administrative agencies, including certain overseas transactions, will be incorporated in the final statement for fiscal year 1973 to be published at a later date. It was not possible to include these transactions in the preliminary statement because of timing.

[2] Based on revised estimates of the 1974 Budget, released June 1, 1973, in the Mid-Session Review and the statement of Secretary Shultz released June 4, 1973. The figures are rounded in tenths of billions of dollars and will not necessarily add to the totals.

[3] Effective with the July 1972 issue, the loan account/expenditure account distinction is eliminated and the transactions formerly presented in separate Sections A and B of Table III have been consolidated. Loan transactions previously disclosed separately in this statement will be published in the Treasury Bulletin. This change is in accord with the announcement by the Office of Management and Budget of the elimination of the loan account/expenditure account distinction in the annual budget presentation.

[4] In accordance with the provisions of the Social Security Act, as amended, "Individual income taxes withheld" have been increased and "Federal Insurance Contributions Act taxes" have been decreased in the amount of $396,771,705 to correct estimates for quarter ended September 30, 1972 and prior. "Individual income taxes other" have been increased and "Self-Employment Contributions Act Taxes" have been decreased in the amount of $42,040,567 to correct estimates for the calendar year 1971 and prior.

[5] Includes $432,618,055 distribution to Federal Disability and Hospital Insurance Trust Funds.

[6] Pursuant to Public Law 93-32 dated May 11, 1973, most outlays of the Rural Electrification Administration including the Rural Telephone Bank were classified outside the unified budget totals. Transactions are included in budget outlays through the close of business May 11, 1973. For transactions after May 11, 1973, classified outside the unified budget totals, see Table IV, Schedule A. Administrative expenses financed by general fund appropriations will continue to be reflected in budget totals.

[7] Pursuant to Public Law 92-126 dated August 17, 1971, receipts and outlays for the Export-Import Bank of the United States were reclassified outside the unified budget totals. Amounts represent Export-Import Bank of the United States transactions through the close of business August 16, 1971. For transactions after August 16, 1971, classified outside the unified budget totals, see Table IV, Schedule A.

[8] Transactions cover the period July 1, 1972, through June 22, 1973, and are partially estimated.

[9] See Table IV, Schedule A.

*Less than $500.00.

**Less than $500,000.00.

Source: Prepared by the Department of the Treasury, Bureau of Accounts, on the basis of reports received from disbursing, collecting and administrative agencies of the Government.

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Legislative Branch:									
Senate	$7,460	....	$7,460	$79,301	....	$79,301	$74,140	....	$74,140
House of Representatives	12,413	....	12,413	141,646	....	141,646	128,830	....	128,830
Joint items for Senate and House	5,456	....	5,456	29,266	....	29,266	33,559	....	33,559
Architect of the Capitol	3,605	....	3,605	32,540	....	32,540	29,798	....	29,798
Botanic Garden	58	....	58	804	....	804	740	....	740
Library of Congress	6,434	....	6,434	77,713	....	77,713	69,969	....	69,969
Government Printing Office:									
General fund appropriations	4,453	....	4,453	86,570	....	86,570	58,494	....	58,494
Revolving fund (net)	1,587	....	1,587	3,146	....	3,146	13,382	....	13,382
General Accounting Office	8,898	....	8,898	95,254	....	95,254	85,447	....	85,447
Cost Accounting Standards Board	105	....	105	1,480	....	1,480	882	....	882
United States Tax Court	913	....	913	8,107	....	8,107	6,501	....	6,501
Proprietary receipts from the public	....	$2,309	-2,309	....	$14,938	-14,938	....	$14,131	-14,131
Intrabudgetary transactions	-208	....	-208	-457	....	-457	-304	....	-304
Total--Legislative Branch	51,174	2,309	48,865	555,372	14,938	540,433	501,438	14,131	487,307
The Judiciary:									
Supreme Court of the United States	604	....	604	5,209	....	5,209	4,570	....	4,570
Court of Customs and Patent Appeals	63	....	63	663	....	663	651	....	651
Customs Court	214	....	214	2,209	....	2,209	2,252	....	2,252
Court of Claims	192	....	192	2,102	....	2,102	2,003	....	2,003
Courts of appeals, district courts, and other judicial services	15,721	....	15,721	175,365	....	175,365	161,409	....	161,409
Federal Judicial Center	123	....	123	1,424	....	1,424	1,121	....	1,121
Commission on Bankruptcy Laws of the United States	52	....	52	441	....	441	193	....	193
Judiciary Trust Funds	285	....	285	2,820	....	2,820	2,618	....	2,618
Proprietary receipts from the public	....	(*)	(*)	....	6,907	-6,907	....	1,875	-1,875
Total--The Judiciary	17,254	(*)	17,253	190,232	6,907	183,325	174,816	1,875	172,941
Executive Office of the President:									
Compensation of the President	21	....	21	250	....	250	250	....	250
The White House Office	622	....	622	9,735	....	9,735	9,604	....	9,604
Special Projects	42	....	42	1,650	....	1,650	1,117	....	1,117
Executive Residence	24	....	24	1,057	....	1,057	1,218	....	1,218
Special Assistance to the President	39	....	39	628	....	628	643	....	643
Council of Economic Advisers	82	....	82	1,498	....	1,498	1,766	....	1,766
Council on International Economic Policy	157	....	157	658	....	658	-8	....	-8
Council on Environmental Quality and Office of Environmental Quality	30	....	30	2,330	....	2,330	1,891	....	1,891
Domestic Council	118	....	118	1,650	....	1,650	1,871	....	1,871
National Aeronautics and Space Council	30	....	30	414	....	414	428	....	428
National Security Council	250	....	250	2,437	....	2,437	2,221	....	2,221
Office of Emergency Preparedness	1,382	27	1,356	9,651	28	9,623	8,717	55	8,662
Office of Management and Budget	1,663	....	1,663	18,491	....	18,491	18,312	....	18,312
Office of Science and Technology	110	....	110	1,805	....	1,805	1,829	....	1,829
Office of Telecommunications Policy	316	....	316	2,574	....	2,574	2,337	....	2,337
Special Action Office for Drug Abuse Prevention	648	....	648	4,775	....	4,775	1,079	....	1,079
Special Representative for Trade Negotiations	76	....	76	852	....	852	818	....	818
Miscellaneous	-3	....	-3	8	....	8	53	....	53
Total--Executive Office of the President	5,606	27	5,580	60,464	28	60,437	54,147	55	54,092

See footnotes on page 3.

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Funds appropriated to the President:									
Appalachian regional development programs:									
Public enterprise funds	$65	$8	$56	$648	$144	$505	$631	$176	$454
Other	22,327	....	22,327	263,402	....	263,402	241,007	....	241,007
Disaster relief	110,869	....	110,869	358,447	....	358,447	92,169	....	92,169
Economic stabilization activities	2,787	....	2,787	26,405	....	26,405	13,402	....	13,402
Emergency fund for the President	....	....	....	14	....	14	455	....	455
Expansion of defense production	92	5,193	-5,102	103,875	35,849	68,026	1,542	13,065	-11,524
Expenses of management improvement	84	....	84	548	....	548	655	....	655
Foreign assistance:									
International security assistance:									
Military Assistance:									
Defense Department	98,552	....	98,552	492,239	....	492,239	563,121	....	563,121
All other agencies	-487	....	-487	-7,841	....	-7,841	-608	....	-608
Foreign military credit sales	9,704	....	9,704	232,953	....	232,953	147,097	....	147,097
Military credit sales to Israel	15,156	....	15,156	123,354	....	123,354	68,924	....	68,924
Security supporting assistance	71,701	....	71,701	641,792	....	641,792	717,054	....	717,054
Liquidation of foreign military sales fund	159,604	14,764	144,840	239,936	126,674	113,262	143,237	133,033	10,204
Military assistance advances	278,384	....	278,384	1,396,012	....	1,396,012	1,183,794	....	1,183,794
Proprietary receipts from the public:									
Military assistance advances	....	162,214	-162,214	....	1,730,668	-1,730,668	....	1,096,694	-1,096,694
Other	....	4,483	-4,483	....	89,839	-89,839	....	69,651	-69,651
Total--International security assistance	632,614	181,461	451,153	3,118,445	1,947,181	1,171,263	2,822,619	1,299,378	1,523,241
International development assistance:									
Multilateral assistance:									
International financial institutions	14,570	....	14,570	323,532	....	323,532	275,694	....	275,694
International organizations and programs	32,226	....	32,226	186,227	....	186,227	195,932	....	195,932
Bilateral assistance:									
Grants and other programs	62,112	....	62,112	454,689	....	454,689	406,203	....	406,203
Alliance for progress, development loans	15,137	4,073	11,064	226,497	38,686	187,811	223,508	39,979	183,529
Development loans	44,366	20,527	23,838	326,879	133,734	193,145	475,850	139,195	336,655
Housing guaranty fund	356	190	166	3,077	2,586	490	2,391	2,444	-53
Overseas Private Investment Corporation	-2,139	6,365	-8,505	27,736	36,994	-9,258	10,502	31,844	-21,342
Inter-American Foundation	325	....	325	3,949	-33	3,983	1,614	35	1,579
Intragovernmental funds	3,399	....	3,399	4,832	....	4,832	4,768	....	4,768
Proprietary receipts from the public	....	19,422	-19,422	....	320,349	-320,349	....	63,828	-63,828
Total--Bilateral assistance	123,556	50,579	72,977	1,047,660	532,317	515,343	1,124,837	277,326	847,511
Total--International development assistance	170,352	50,579	119,773	1,557,418	532,317	1,025,102	1,596,462	277,326	1,319,137
President's foreign assistance contingency fund	-573	....	-573	10,532	....	10,532	43,270	....	43,270
Total--Foreign assistance	802,393	232,040	570,353	4,686,395	2,479,498	2,206,897	4,462,351	1,576,703	2,885,648
Office of Economic Opportunity	83,177	17	83,159	800,377	153	800,224	1,052,699	250	1,052,449
Miscellaneous	....	....	....	40	....	40	1,571	....	1,571
Total--Funds appropriated to the President	1,021,792	237,259	784,533	6,240,151	2,515,644	3,724,507	5,866,482	1,590,195	4,276,287

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Agriculture Department:									
Departmental management:									
Office of the Secretary	$2,757	...	$2,757	$9,753	...	$9,753	$10,058	...	$10,058
Office of the Inspector General	1,528	...	1,528	17,492	...	17,492	18,352	...	18,352
Office of the General Counsel	491	...	491	6,272	...	6,272	6,741	...	6,741
Office of Management Services	198	...	198	3,803	...	3,803	4,055	...	4,055
Total--Departmental management	4,974	...	4,974	37,320	...	37,320	39,206	...	39,206
Science and education programs:									
Agricultural Research Service	15,385	...	15,385	199,296	...	199,296	255,656	...	255,656
Animal and Plant Health Inspection Service	24,915	...	24,915	309,245	...	309,245	102,169	...	102,169
Cooperative State Research Service	8,278	...	8,278	82,341	...	82,341	74,706	...	74,706
Extension Service	24,997	...	24,997	185,838	...	185,838	169,720	...	169,720
National Agricultural Library	437	...	437	4,175	...	4,175	4,242	...	4,242
Total--Science and education programs	74,012	...	74,012	780,896	...	780,896	606,493	...	606,493
Agricultural economics:									
Statistical Reporting Service	2,574	...	2,574	21,303	...	21,303	21,055	...	21,055
Economic Research Service	185	...	185	15,357	...	15,357	17,198	...	17,198
Marketing services:									
Commodity Exchange Authority	275	...	275	2,587	...	2,587	2,943	...	2,943
Packers and Stockyards Administration	323	...	323	3,746	...	3,746	3,933	...	3,933
Farmer Cooperative Service	206	...	206	1,950	...	1,950	2,012	...	2,012
International programs:									
Foreign Agricultural Service	4,835	...	4,835	26,907	...	26,907	28,560	...	28,560
Foreign assistance and special export programs	288,148	...	288,148	895,000	...	895,000	1,320,400	...	1,320,400
Agricultural Stabilization and Conservation Service:									
Administrative expenses	23,323	...	23,323	155,487	...	155,487	166,373	...	166,373
Sugar act program	7,144	...	7,144	86,381	...	86,381	86,133	...	86,133
Cropland adjustment program	17	...	17	51,473	...	51,473	66,783	...	66,783
Rural environmental assistance program	2,764	...	2,764	160,233	...	160,233	185,371	...	185,371
Indemnity, conservation and land-use programs	1,188	...	1,188	16,334	...	16,334	10,743	...	10,743
Total--Agricultural Stab. and Conservation Service	34,437	...	34,437	469,909	...	469,909	515,403	...	515,403
Corporations:									
Federal Crop Insurance Corporation:									
Administrative and operating expenses	1,386	...	1,386	12,865	...	12,865	12,066	...	12,066
Federal Crop Insurance Corporation fund	1,133	$447	686	24,095	$37,818	-13,723	31,516	$41,911	-10,395
Commodity Credit Corporation:									
Public enterprise funds	332,141	550,620	-218,479	9,708,868	5,951,922	3,756,947	9,039,742	5,056,372	3,983,371
Special activities:									
National Wool Act program	4,149	...	4,149	73,510	...	73,510	116,545	...	116,545
Intragovernmental funds	-208,157	...	-208,157	-173,161	35,026	-208,187	-292,213	62,233	-354,446
Total--Commodity Credit Corporation	128,132	550,620	-422,488	9,609,217	5,986,948	3,622,269	8,864,074	5,118,605	3,745,470
Total--Corporations	130,652	551,067	-420,415	9,646,176	6,024,766	3,621,411	8,907,656	5,160,516	3,747,140
Rural development:									
Rural Development Service	19	...	19	191	...	191	158	...	158
Rural Electrification Administration:									
Rural Telephone Bank	...	...	...	34,390	5,085	[6] 29,306	614	597	16
Other	1,278	...	1,278	499,212	...	[6] 499,212	567,367	...	567,367

See footnotes on page 3.

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

See footnotes on page 3.

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Agriculture Department--Continued									
Rural development--Continued									
Farmers Home Administration:									
Public enterprise funds:									
Direct loan account	....	....	....	$65,459	$83,073	-$17,615	$393,107	$381,992	$11,116
Rural development insurance fund	$33,459	$9,559	$23,901	232,835	454,828	-221,993	....	....	....
Rural housing insurance fund	167,378	142,079	25,300	2,284,709	2,512,544	-227,835	2,251,377	2,082,285	169,093
Emergency credit revolving fund (disaster loans)	(*)	....	(*)	920	14,982	-14,063	42,600	115,895	-73,295
Agricultural credit insurance fund	211,201	93,426	117,775	1,777,471	1,580,852	196,619	1,172,272	979,655	192,617
Other	2,860	918	1,942	3,072	9,723	-6,650	5,054	11,669	-6,615
Rural housing, water and waste disposal grants	3,918	....	3,918	47,615	....	47,615	37,141	....	37,141
Salaries and expenses	10,030	....	10,030	109,514	....	109,514	100,682	....	100,682
Total--Farmers Home Administration	428,846	245,982	182,865	4,521,594	4,656,002	-134,408	4,002,233	3,571,496	430,737
Total--Rural development	430,143	245,982	184,161	5,055,387	4,661,087	394,300	4,570,372	3,572,093	998,279
Environmental programs:									
Soil Conservation Service:									
Conservation operations	13,164	....	13,164	168,678	....	168,678	171,435	....	171,435
Watersheds, flood prevention and water development	11,615	....	11,615	124,038	....	124,038	126,454	....	126,454
Great Plains conservation program	1,858	....	1,858	15,173	....	15,173	16,169	....	16,169
Consumer programs:									
Agricultural Marketing Service:									
Marketing Services	1,969	....	1,969	29,037	....	29,037	148,322	....	148,322
Payments to States and Possessions	....	....	....	1,600	....	1,600	1,601	....	1,601
Removal of surplus agricultural commodities	103,541	....	103,541	735,730	....	735,730	593,215	....	593,215
Milk market orders assessment fund	1,574	1,489	85	18,840	19,233	-393	18,728	20,311	-1,583
Other	3,172	....	3,172	32,340	....	32,340	44,666	....	44,666
Total--Agricultural Marketing Service	110,256	1,489	108,767	817,548	19,233	798,314	806,531	20,311	786,220
Food and Nutrition Service:									
Child nutrition programs	7,052	....	7,052	600,992	....	600,992	622,194	....	622,194
Special milk program	6,943	....	6,943	90,101	....	90,101	93,552	....	93,552
Food stamp program	182,502	....	182,502	2,210,498	....	2,210,498	1,909,166	....	1,909,166
Total--Food and Nutrition Service	196,496	....	196,496	2,901,592	....	2,901,592	2,624,912	....	2,624,912
Total--Consumer Programs	306,752	1,489	305,263	3,719,140	19,233	3,699,906	3,431,443	20,311	3,411,132
Forest Service:									
Intragovernmental funds	-816	....	-816	-4,966	....	-4,966	1,070	....	1,070
Forest protection and utilization	30,389	....	30,389	339,194	....	339,194	374,450	....	374,450
Construction and land acquisition	2,433	....	2,433	27,949	....	27,949	19,565	....	19,565
Forest roads and trails	13,421	....	13,421	140,183	....	140,183	143,221	....	143,221
Forest Service permanent appropriations	1,664	....	1,664	137,032	....	137,032	96,756	....	96,756
Cooperative work	5,199	....	5,199	79,189	....	79,189	41,114	....	41,114
Other	244	....	244	4,921	....	4,921	4,686	....	4,686
Total--Forest Service	52,533	....	52,533	723,502	....	723,502	680,863	....	680,863
Proprietary receipts from the public	....	124,911	-124,911	....	813,856	-813,856	....	773,980	-773,980
Total--Agriculture Department	1,356,686	923,448	433,238	21,707,069	11,518,941	10,188,128	20,461,595	9,526,900	10,934,696

See footnotes on page 3.

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Commerce Department:									
General Administration:									
Public works grants and loans revolving fund	-$23	$3,431	-$3,454	$17,371	$35,967	-$18,596	$12,595	$30,420	-$17,825
Salaries and expenses	899	....	899	8,303	....	8,303	7,376	....	7,376
Other	646	....	646	610	....	610	1,559	....	1,559
Social and Economic Statistics Administration:									
Salaries and expenses	3,132	....	3,132	32,656	....	32,656	29,260	....	29,260
Censuses	3,075	....	3,075	28,343	....	28,343	27,994	....	27,994
Other	-4,386	....	-4,386	-2,280	....	-2,280	1,558	....	1,558
Economic development assistance:									
Economic Development Administration	32,949	....	32,949	296,340	....	296,340	265,834	....	265,834
Regional Action Planning Commissions	4,970	....	4,970	57,334	....	57,334	44,224	....	44,224
Promotion of industry and commerce:									
Domestic and International Business Administration	5,502	....	5,502	55,585	....	55,585	48,648	....	48,648
Foreign direct investment regulation	205	....	205	2,457	....	2,457	2,528	....	2,528
Minority business enterprise	5,036	....	5,036	39,143	....	39,143	8,393	....	8,393
National Industrial Pollution Control Council	23	....	23	332	....	332	327	....	327
U.S. Travel Service	1,359	....	1,359	7,587	....	7,587	5,046	....	5,046
Total--Promotion of industry and commerce	12,125	....	12,125	105,104	....	105,104	64,942	....	64,942
Science and technology:									
National Oceanic and Atmospheric Administration:									
Public enterprise funds	2,336	113	2,223	4,516	2,931	1,585	3,305	3,678	-373
Other	39,211	....	39,211	332,553	....	332,553	343,493	....	343,493
Patent Office	6,738	....	6,738	64,178	....	64,178	60,480	....	60,480
National Bureau of Standards:									
Intragovernmental funds	695	....	695	-923	....	-923	-2,365	....	-2,365
Other	4,383	....	4,383	51,876	....	51,876	47,395	....	47,395
Office of Telecommunications	805	....	805	5,942	....	5,942	3,685	....	3,685
National Technical Information Service	529	....	529	5,006	....	5,006	3,880	....	3,880
Office of State Technical Service	....	....	....	7	....	7	191	....	191
Total--Science and technology	54,697	113	54,584	463,155	2,931	460,224	460,064	3,678	456,386
Maritime Administration:									
Public enterprise funds	102	1,030	-928	1,948	12,787	-10,839	2,648	13,254	-10,606
Ship construction	18,797	....	18,797	185,878	....	185,878	143,252	....	143,252
Ship operation subsidies	37,288	....	37,288	226,711	....	226,711	235,667	....	235,667
Other	4,388	....	4,388	55,399	....	55,399	53,339	....	53,339
Total--Maritime Administration	60,575	1,030	59,545	469,935	12,787	457,149	434,905	13,254	421,651
Proprietary receipts from the public	....	3,311	-3,311	....	41,135	-41,135	....	36,409	-36,409
Intrabudgetary transactions	-2,482	....	-2,482	-21,394	....	-21,394	-16,649	....	-16,649
Total--Commerce Department	166,177	7,885	158,292	1,455,477	92,819	1,362,658	1,333,661	83,761	1,249,900
Defense Department:									
Military:									
Military personnel:									
Department of the Army	739,814	....	739,814	8,568,053	....	8,568,053	9,004,560	....	9,004,560
Department of the Navy	628,205	....	628,205	7,199,329	....	7,199,329	6,748,098	....	6,748,098
Department of the Air Force	633,624	....	633,624	7,516,144	....	7,516,144	7,283,134	....	7,283,134
Total--Military personnel	2,001,643	....	2,001,643	23,283,526	....	23,283,526	23,035,793	....	23,035,793
Retired Military personnel	376,281	....	376,281	4,390,384	....	4,390,384	3,884,688	....	3,884,688

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Defense Department--Continued									
Military--Continued									
Operation and maintenance:									
Department of the Army	$780,361	....	$780,361	$6,916,993	....	$6,916,993	$7,553,886	....	$7,553,886
Department of the Navy	640,138	....	640,138	5,722,383	....	5,722,383	5,689,180	....	5,689,180
Department of the Air Force	643,029	....	643,029	6,991,006	....	6,991,006	7,160,686	....	7,160,686
Defense agencies	137,875	....	137,875	1,442,708	....	1,442,708	1,271,158	....	1,271,158
Total--Operation and maintenance	2,201,403	....	2,201,403	21,073,090	....	21,073,090	21,674,910	....	21,674,910
Procurement:									
Department of the Army	291,225	....	291,225	2,781,398	....	2,781,398	3,894,432	....	3,894,432
Department of the Navy	788,851	....	788,851	7,030,089	....	7,030,089	7,135,407	....	7,135,407
Department of the Air Force	569,234	....	569,234	5,800,323	....	5,800,323	6,047,758	....	6,047,758
Defense agencies	5,733	....	5,733	48,142	....	48,142	53,797	....	53,797
Total--Procurement	1,655,043	....	1,655,043	15,659,952	....	15,659,952	17,131,395	....	17,131,395
Research, development, test and evaluation:									
Department of the Army	242,570	....	242,570	1,910,607	....	1,910,607	1,778,730	....	1,778,730
Department of the Navy	258,302	....	258,302	2,404,658	....	2,404,658	2,426,633	....	2,426,633
Department of the Air Force	287,482	....	287,482	3,361,864	....	3,361,864	3,205,071	....	3,205,071
Defense agencies	48,918	....	48,918	478,580	....	478,580	470,775	....	470,775
Total--Research, development, test and evaluation	837,272	....	837,272	8,155,708	....	8,155,708	7,881,208	....	7,881,208
Military construction:									
Department of the Army	104,830	....	104,830	421,745	....	421,745	423,048	....	423,048
Department of the Navy	40,558	....	40,558	392,608	....	392,608	342,762	....	342,762
Department of the Air Force	31,535	....	31,535	284,412	....	284,412	330,736	....	330,736
Defense agencies	919	....	919	18,150	....	18,150	11,459	....	11,459
Total--Military construction	177,841	....	177,841	1,116,916	....	1,116,916	1,108,005	....	1,108,005
Family housing:									
Homeowner's assistance fund	292	$253	39	4,151	$4,121	31	8,775	$4,530	4,245
Other	86,632	....	86,632	726,978	....	726,978	683,703	....	683,703
Total--Family housing	86,924	253	86,671	731,130	4,121	727,009	692,478	4,530	687,948
Civil Defense	7,530	....	7,530	73,954	....	73,954	74,524	....	74,524
Special foreign currency program	1,177	....	1,177	3,799	....	3,799	2,645	....	2,645
Revolving and management funds:									
Public enterprise funds:									
Department of the Army	....	....	....	-1	-1	(*)	(*)	(*)	(*)
Department of the Navy	2,824	1,845	979	18,630	19,947	-1,317	21,731	21,662	69
Department of the Air Force	....	3	-3	....	25	-25	1	59	-58
Intragovernmental funds:									
Department of the Army	22,507	....	22,507	-315,593	....	-315,593	-16,543	....	-16,543
Department of the Navy	95,356	....	95,356	-253,060	....	-253,060	26,476	....	26,476
Department of the Air Force	27,963	....	27,963	-321,415	....	-321,415	21,782	....	21,782
Defense agencies	-5,291	....	-5,291	-160,020	....	-160,020	-255,097	....	-255,097
Total--Revolving and management funds	143,359	1,848	141,511	-1,031,459	19,971	-1,051,429	-201,649	21,721	-223,370

See footnotes on page 3.

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Defense Department--Continued									
Military--Continued									
Miscellaneous trust revolving funds	$6,784	$7,490	-$706	$64,156	$73,207	-$9,051	$65,206	$66,745	-$1,539
Miscellaneous trust funds	989	....	989	7,715	....	7,715	7,181	....	7,181
Proprietary receipts from the public	....	-16,646	16,646	....	101,577	-101,577	....	106,596	-106,596
Intrabudgetary transactions	-459	....	-459	-3,163	....	-3,163	-6,137	....	-6,137
Total--Military	7,495,788	-7,056	7,502,843	73,525,709	198,875	73,326,834	75,350,247	199,592	75,150,654
Civil;									
Department of the Army:									
Cemeterial expenses	2,465	....	2,465	20,168	....	20,168	21,307	....	21,307
Corps of Engineers:									
Water resources development	248,316	....	248,316	1,697,043	....	1,697,043	1,519,387	....	1,519,387
Intragovernmental funds	-22,140	....	-22,140	8,222	....	8,222	-7,117	....	-7,117
Proprietary receipts from the public	....	518	-518	....	33,282	-33,282	....	26,790	-26,790
Ryukyu Islands	14	....	14	230	46	184	6,438	272	6,166
Miscellaneous accounts:									
Army--wildlife conservation, etc	57	....	57	355	....	355	318	....	318
Navy--wildlife conservation, etc	5	....	5	49	....	49	35	....	35
Air Force--wildlife conservation, etc	7	....	7	104	....	104	72	....	72
Soldiers' and Airmen's Home:									
Soldiers' and Airmen's Home revolving fund	10	17	-7	225	222	4	208	223	-15
Other	1,101	....	1,101	12,163	....	12,163	12,015	....	12,015
The Panama Canal:									
Canal Zone Government	10,660	....	10,660	60,020	....	60,020	53,036	....	53,036
Panama Canal Company	21,561	21,304	257	194,413	198,643	-4,230	183,190	182,649	540
Proprietary receipts from the public	....	1,362	-1,362	....	24,227	-24,227	....	23,361	-23,361
Intrabudgetary transactions	-5,907	....	-5,907	-32,670	....	-32,670	-26,036	....	-26,036
Total--Civil	256,149	23,201	232,948	1,960,322	256,419	1,703,903	1,762,853	233,295	1,529,557
Total--Defense Department	7,751,937	16,145	7,735,792	75,486,031	455,294	75,030,736	77,113,099	432,888	76,680,212
Health, Education, and Welfare Department:									
Food and Drug Administration:									
Revolving fund for certification and other services	355	431	-76	4,237	4,750	-513	4,781	4,410	371
Other	13,749	....	13,749	143,358	....	143,358	105,109	....	105,109
Health Services and Mental Health Administration:									
Public enterprise funds	1,142	115	1,027	5,657	582	5,075	134	129	5
Intragovernmental funds	27,658	....	27,658	22,986	....	22,986	-1,276	....	-1,276
Mental health	55,076	....	55,076	513,691	....	513,691	481,235	....	481,235
Health services planning and development	24,953	....	24,953	361,143	....	361,143	405,819	....	405,819
Health services delivery	43,294	....	43,294	661,077	....	661,077	681,767	....	681,767
Preventive health services	6,666	....	6,666	129,243	....	129,243	78,229	....	78,229
Indian health services and facilities	15,606	....	15,606	197,442	....	197,442	169,599	....	169,599
Other	9,576	....	9,576	103,435	....	103,435	81,089	....	81,089
Total--Health Service and Mental Health Administration	183,969	115	183,854	1,994,674	582	1,994,091	1,896,597	129	1,896,468

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Health, Education, and Welfare Department--Continued									
National Institutes of Health:									
Public enterprise funds	$19	$130	-$111	$756	$1,462	-$706	$2,305	$1,085	$1,220
Intragovernmental funds	-152,708	....	-152,708	36,465	....	36,465	997	....	997
Cancer research	45,088	....	45,088	382,760	....	382,760	258,898	....	258,898
Heart and lung research	21,450	....	21,450	232,473	....	232,473	193,527	....	193,527
Arthritis, metabolic and digestive diseases	13,177	....	13,177	149,229	....	149,229	146,399	....	146,399
Neurological diseases and stroke	10,858	....	10,858	110,403	....	110,403	104,981	....	104,981
Allergy and infectious diseases	9,603	....	9,603	106,526	....	106,526	105,865	....	105,865
General medical science	17,988	....	17,988	170,730	....	170,730	161,668	....	161,668
Child health and human development	10,973	....	10,973	114,567	....	114,567	97,528	....	97,528
Other research institutes	17,367	....	17,367	172,749	....	172,749	165,204	....	165,204
Health manpower	108,208	....	108,208	627,420	....	627,420	455,705	....	455,705
Other	3,215	....	3,215	51,452	....	51,452	59,928	....	59,928
Total--National Institutes of Health	105,236	130	105,107	2,155,531	1,462	2,154,069	1,753,006	1,085	1,751,920
Education Division:									
Office of Assistant Secretary of Education	-654	....	-654	-483	....	-483	....	....	....
Office of Education:									
Student loan insurance fund	12,378	1,031	11,347	50,760	7,153	43,607	31,679	5,090	26,589
Higher education facilities loan and insurance fund	17,520	955	16,566	32,224	23,000	9,224	46,180	21,711	24,469
Elementary and secondary education	277,181	....	277,181	1,826,402	....	1,826,402	1,887,812	....	1,887,812
School assistance in federally affected areas	90,009	....	90,009	580,494	....	580,494	649,302	....	649,302
Emergency school assistance	3,010	....	3,010	40,992	....	40,992	71,952	....	71,952
Education for the handicapped	14,064	....	14,064	111,204	....	111,204	93,674	....	93,674
Occupational, vocational, and adult education	93,343	....	93,343	610,841	....	610,841	508,541	....	508,541
Higher education	252,291	....	252,291	1,382,165	....	1,382,165	1,287,140	....	1,287,140
Educational development	21,165	....	21,165	226,288	....	226,288	204,059	....	204,059
Other	25,905	....	25,905	170,763	....	170,763	150,175	....	150,175
Total--Office of Education	806,866	1,986	804,880	5,032,135	30,153	5,001,982	4,930,515	26,802	4,903,714
National Institute of Education	12,406	....	12,406	26,672	....	26,672	....	....	....
Total--Education Division	818,618	1,986	816,632	5,058,324	30,153	5,028,171	4,930,515	26,802	4,903,714
Social and Rehabilitation Service:									
Grants to States for Public Assistance:									
Providing or financing medical services	394,825	....	394,825	4,578,600	....	4,578,600	4,470,064	....	4,470,064
Public assistance	643,277	....	643,277	5,942,869	....	5,942,869	6,668,432	....	6,668,432
Social and individual services	118,876	....	118,876	1,613,692	....	1,613,692	1,953,407	....	1,953,407
Social and rehabilitation services	75,147	....	75,147	800,163	....	800,163	726,404	....	726,404
Work incentives	33,866	....	33,866	280,540	....	280,540	171,103	....	171,103
Assistance to refugees in the United States	15,850	....	15,850	135,362	....	135,362	129,173	....	129,173
Other	3,571	....	3,571	56,837	....	56,837	38,833	....	38,833
Total--Social and Rehabilitation Services	1,285,411	....	1,285,411	13,408,063	....	13,408,063	14,157,416	....	14,157,416
Social Security Administration:									
Intragovernmental funds	43	....	43	82	....	82	-324	....	-324
Payment to social security trust funds	113,526	....	113,526	2,385,511	....	2,385,511	2,454,192	....	2,454,192
Special benefits for disabled coal miners	98,412	....	98,412	946,335	....	946,335	417,951	....	417,951
Federal old-age and survivors ins. trust fund:									
Administrative expenses and construction	67,396	....	67,396	719,911	....	719,911	581,959	....	581,959
Benefit payments	3,814,229	....	3,814,229	42,169,560	....	42,169,560	34,540,313	....	34,540,313
Vocational rehabilitation services	345	....	345	2,469	....	2,469	1,555	....	1,555
Payment to railroad retirement account	....	....	....	782,954	....	782,954	724,341	....	724,341
Total-FOASI trust fund	3,881,970	....	3,881,970	43,674,894	....	43,674,894	35,848,168	....	35,848,168

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Health, Education, and Welfare Department--Continued									
Social Security Administration--Continued									
Federal disability insurance trust fund:									
Administrative expenses and construction	$29,565	...	$29,565	$246,653	...	$246,653	$211,677	...	$211,677
Benefit payments	473,977	...	473,977	5,161,928	...	5,161,928	4,045,902	...	4,045,902
Vocational rehabilitation services	5,408	...	5,408	39,357	...	39,357	27,523	...	27,523
Payment to railroad retirement account	...	...	...	19,503	...	19,503	24,190	...	24,190
Total--FDI trust fund	508,949	...	508,949	5,467,441	...	5,467,441	4,309,292	...	4,309,292
Federal hospital insurance trust fund:									
Administrative expenses and construction	17,340	...	17,340	192,842	...	192,842	166,375	...	166,375
Benefit payments	617,610	...	617,610	6,648,221	...	6,648,221	6,109,139	...	6,109,139
Total--FHI trust fund	634,950	...	634,950	6,841,063	...	6,841,063	6,275,514	...	6,275,514
Federal supplementary medical ins. trust fund:									
Administrative expenses and construction	21,516	...	21,516	245,867	...	245,867	288,627	...	288,627
Benefit payments	207,574	...	207,574	2,391,056	...	2,391,056	2,255,069	...	2,255,069
Total--FSMI trust fund	229,091	...	229,091	2,636,922	...	2,636,922	2,543,696	...	2,543,696
Total--Social Security Administration	5,466,941	...	5,466,941	61,952,249	...	61,952,249	51,848,491	...	51,848,491
Special institutions:									
American Printing House for the Blind	178	...	178	1,697	...	1,697	1,580	...	1,580
National Technical Institute for the Deaf	2,414	...	2,414	17,060	...	17,060	12,332	...	12,332
Model Secondary School for the Deaf	352	...	352	3,034	...	3,034	2,873	...	2,873
Gallaudet College	1,569	...	1,569	10,395	...	10,395	9,469	...	9,469
Howard University	7,167	...	7,167	68,253	...	68,253	49,449	...	49,449
Total--Special institutions	11,681	...	11,681	100,438	...	100,438	75,704	...	75,704
Office of Child Development	27,418	...	27,418	384,467	...	384,467	215,623	...	215,623
Office of the Secretary:									
Intragovernmental funds	-5,320	...	-5,320	-13,182	...	-13,182	-3,836	...	-3,836
Office for Civil Rights	1,064	...	1,064	12,975	...	12,975	10,247	...	10,247
Office of Consumer Affairs	80	...	80	1,174	...	1,174	1,315	...	1,315
Departmental management	5,367	$4	5,363	56,139	$4	56,135	50,346	...	50,346
Proprietary receipts from the public	...	16,489	-16,489	...	24,869	-24,869	...	$30,033	-30,033
Intrabudgetary transactions:									
Payments for health insurance for the aged:									
Federal hospital insurance trust fund	...	...	...	-381,415	...	-381,415	-503,351	...	-503,351
Federal supplementary medical insurance trust fund	-113,526	...	-113,526	-1,430,451	...	-1,430,451	-1,365,295	...	-1,365,295
Payments for military service credits and special benefits for the aged:									
Federal old-age and survivors insurance trust fund	...	...	...	-474,645	...	-474,645	-487,546	...	-487,546
Federal disability insurance trust fund	...	...	...	-51,000	...	-51,000	-50,000	...	-50,000
Federal hospital insurance trust fund	...	...	...	-48,000	...	-48,000	-48,000	...	-48,000
Receipts transferred to railroad retirement account	...	...	...	-802,457	...	-802,457	-748,531	...	-748,531
Interest on reimbursement of administrative and vocational rehabilitation expenses:									
Federal old-age and survivors ins. trust fund	...	...	...	1,875	...	1,875	100	...	100
Federal disability insurance trust fund	...	...	...	260	...	260	299	...	299
Federal hospital insurance trust fund	...	...	...	-155	...	-155	-348	...	-348
Federal supplementary medical ins. trust fund	...	...	...	-1,979	...	-1,979	-51	...	-51
Total--Health, Education, and Welfare Department	7,801,042	19,155	7,781,887	82,070,480	61,822	82,008,658	71,842,591	62,459	71,780,132

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Department	7,801,042	19,155	7,781,887	82,070,480	61,822	82,008,658	71,842,591	62,459	71,780,132

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Housing and Urban Development Department:									
Housing production and mortgage credit:									
Federal Housing Administration:									
Public enterprise funds:									
FHA revolving fund	$200,588	$91,488	$109,100	$1,993,953	$1,153,572	$840,381	$1,335,526	$1,045,432	$290,093
Housing for the elderly or handicapped fund	660	1,924	-1,264	11,432	22,112	-10,680	20,468	21,943	-1,475
College housing loans and other expenses	5,720	6,068	-348	163,978	159,949	4,030	196,042	158,986	37,056
Nonprofit sponsor assistance	115	99	17	1,841	1,565	276	2,508	1,423	1,085
Low-rent public housing loans and other expenses	20,536	83,857	-63,321	650,555	664,598	-14,043	735,413	766,339	-30,925
Other	....	....	....	15,748	....	15,748	17,000	....	17,000
Total--Federal Housing Administration	227,620	183,435	44,184	2,837,506	2,001,795	835,711	2,306,957	1,994,122	312,835
Government National Mortgage Association:									
Management and Liquidating functions	8,394	21,169	-12,775	141,153	894,211	-753,059	158,826	494,565	-335,739
Guarantees of mortgage-backed securities	44	481	-437	529	5,195	-4,666	520	3,157	-2,637
Special assistance functions	149,548	163,305	-13,757	1,665,247	1,866,238	-200,991	935,451	486,834	448,617
Participation sales fund	7,430	....	7,430	7,953	29,075	-21,122	-244	29,845	-30,089
Total--Government National Mortgage Association	165,416	184,955	-19,539	1,814,882	2,794,719	-979,838	1,094,553	1,014,401	80,152
Total--Housing production and mortgage credit	393,036	368,390	24,645	4,652,388	4,796,514	-144,126	3,401,510	3,008,523	392,987
Housing management:									
Public enterprise funds:									
Rental housing assistance fund	3	523	-521	-289	5,804	-6,094	-28	2,464	-2,493
Other	208	440	-232	3,021	7,967	-4,946	3,346	5,905	-2,559
Housing assistance payments:									
College housing grants	877	....	877	6,056	....	6,056	2,446	....	2,446
Low-rent public housing	73,060	....	73,060	1,044,051	....	1,044,051	746,627	....	746,627
Home ownership assistance	20,324	....	20,324	282,309	....	282,309	221,307	....	221,307
Rental housing assistance	20,092	....	20,092	170,319	....	170,319	77,283	....	77,283
Rent supplement	10,072	....	10,072	106,545	....	106,545	74,513	....	74,513
Other	136	....	136	22,341	....	22,341	16,878	....	16,878
Total--Housing management	124,771	964	123,807	1,634,353	13,771	1,620,582	1,142,371	8,370	1,134,002
Community planning and management:									
New communities fund	-814	84	-898	-73	3,482	-3,556	89	2,666	-2,577
Comprehensive planning grants	8,510	....	8,510	75,765	....	75,765	50,170	....	50,170
Other	268	....	268	13,268	....	13,268	10,680	....	10,680
Community development:									
Urban renewal programs	151,424	121,010	30,414	1,801,164	808,953	992,211	1,836,803	647,424	1,189,379
Rehabilitation loan fund	4,700	1,418	3,281	41,734	16,014	25,720	50,885	11,420	39,465
Public facility loans	3,085	2,512	573	38,840	26,376	12,464	47,361	24,940	22,422
Salaries and expenses	....	....	....	25,159	....	25,159	23,274	....	23,274
Model cities programs	49,498	....	49,498	589,929	....	589,929	499,515	....	499,515
Grants for neighborhood facilities	1,804	....	1,804	26,578	....	26,578	23,177	....	23,177
Open space land programs	6,084	....	6,084	61,485	....	61,485	52,319	....	52,319
Grants for basic water and sewer facilities	12,873	....	12,873	156,533	....	156,533	134,005	....	134,005
Total--Community development	229,468	124,941	104,527	2,741,422	851,342	1,890,080	2,667,340	683,783	1,983,557

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Housing and Urban Development Department--Continued									
Federal Insurance Administration:									
Public enterprise funds	$579	$881	-$302	$10,624	$8,637	$1,988	$7,635	$7,574	$62
Other	893	....	893	6,174	....	6,174	4,980	....	4,980
Interstate land sales registration	....	....	....	627	....	627	....	....	....
Research and technology	3,724	....	3,724	47,965	....	47,965	42,630	....	42,630
Fair housing and equal opportunity	....	....	....	9,489	....	9,489	8,411	....	8,411
Departmental management:									
Intragovernmental funds	5,883	....	5,883	-16,550	....	-16,550	-27,742	....	-27,742
Other	24,797	....	24,797	98,144	....	98,144	45,271	....	45,271
Proprietary receipts from the public	....	6	-6	....	235	-235	....	30	-30
Total--Housing and Urban Development Department	791,116	495,266	295,850	9,273,596	5,673,982	3,599,614	7,353,346	3,710,945	3,642,400
Interior Department:									
Public land management:									
Bureau of Land Management	12,867	....	12,867	226,115	....	226,115	210,834	....	210,834
Bureau of Indian Affairs:									
Public enterprise funds	267	216	50	1,404	2,136	-731	1,103	1,517	-414
Indian tribal funds	4,387	....	4,387	193,071	....	193,071	144,149	....	144,149
Education and welfare services	20,705	....	20,705	286,831	....	286,831	267,435	....	267,435
Resources management	5,437	....	5,437	74,209	....	74,209	78,905	....	78,905
Other	9,575	....	9,575	155,818	....	155,818	96,982	....	96,982
Total--Bureau of Indian Affairs	40,371	216	40,154	711,333	2,136	709,197	588,574	1,517	587,057
Bureau of Outdoor Recreation	17,864	....	17,864	209,045	....	209,045	193,512	....	193,512
Territorial Affairs	8,453	....	8,453	105,115	....	105,115	87,956	....	87,956
Total--Public land management	79,554	216	79,338	1,251,608	2,136	1,249,472	1,080,877	1,517	1,079,360
Mineral resources:									
Geological Survey	8,784	....	8,784	139,661	....	139,661	127,175	....	127,175
Bureau of Mines:									
Helium fund	530	1,087	-557	7,141	8,322	-1,181	50,439	8,143	42,296
Other	10,692	....	10,692	138,261	....	138,261	125,264	....	125,264
Office of Coal Research	4,501	....	4,501	32,755	....	32,755	17,880	....	17,880
Office of Oil and Gas	80	....	80	1,539	....	1,539	1,452	....	1,452
Total--Mineral resources	24,587	1,087	23,500	319,357	8,322	311,035	322,210	8,143	314,067
Fish and wildlife and parks:									
Bureau of Sport Fisheries and Wildlife	13,507	....	13,507	148,848	....	148,848	144,186	....	144,186
National Park Service	19,596	....	19,596	209,260	....	209,260	186,709	....	186,709
Water and power resources:									
Bureau of Reclamation:									
Colorado River and Fort Peck projects	23,279	4,738	18,541	126,916	51,416	75,500	98,328	50,455	47,873
Construction and rehabilitation	27,687	....	27,687	233,558	....	233,558	187,235	....	187,235
Other	13,682	....	13,682	137,510	....	137,510	125,363	....	125,363
Alaska Power Administration	114	....	114	992	....	992	1,058	....	1,058
Bonneville Power Administration	13,649	....	13,649	135,241	....	135,241	123,182	....	123,182
Southeastern Power Administration	52	....	52	922	....	922	744	....	744
Southwestern Power Administration	299	....	299	5,639	....	5,639	6,792	....	6,792
Office of water resources research	3,000	....	3,000	14,686	....	14,686	13,644	....	13,644
Total--Water and power resources	81,761	4,738	77,023	655,463	51,416	604,048	556,346	50,455	505,890

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Interior Department--Continued									
Secretarial Offices:									
Office of the Solicitor	$600	...	$600	$7,051	...	$7,051	$6,580	...	$6,580
Office of the Secretary	7,206	...	7,206	49,421	...	49,421	48,672	...	48,672
Proprietary receipts from the public:									
Royalties and Rent on Outer Continental Shelf Lands	...	$194,211	-194,211	...	$3,805,577	-3,805,577	...	$55,676	-55,676
Other	...	230,515	-230,515	...	892,241	-892,241	...	927,990	-927,990
Intrabudgetary transactions	-177	...	-177	-100,390	...	-100,390	-46,099	...	-46,099
Total--Interior Department	226,634	430,768	-204,134	2,540,619	4,759,692	-2,219,073	2,299,481	1,043,781	1,255,700
Justice Department:									
Legal activities and general administration	15,078	...	15,078	179,616	...	179,616	158,055	...	158,055
Federal Bureau of Investigation	28,196	...	28,196	356,737	...	356,737	328,957	...	328,957
Immigration and Naturalization	10,932	...	10,932	137,047	...	137,047	128,828	...	128,828
Federal Prison System:									
Federal Prison Industries, Inc. (net)	193	...	193	1,796	...	1,796	2,829	...	2,829
Federal prison commissary funds	489	518	-29	5,748	5,951	-204	5,530	5,359	172
Other	13,872	...	13,872	156,417	...	156,417	124,731	...	124,731
Law Enforcement Assistance Administration	61,313	...	61,313	623,982	...	623,982	379,748	...	379,748
Bureau of Narcotics and Dangerous Drugs	7,694	...	7,694	77,517	...	77,517	58,382	...	58,382
Proprietary receipts from the public	...	213	-213	...	2,121	-2,121	...	1,358	-1,358
Total--Justice Department	137,767	731	137,036	1,538,859	8,073	1,530,786	1,187,060	6,717	1,180,343
Labor Department:									
Manpower Administration:									
Intragovernmental funds	2,905	...	2,905	-1,327	...	-1,327	-2,072	...	-2,072
Manpower training services	101,531	...	101,531	1,477,722	...	1,477,722	1,665,420	...	1,665,420
Emergency employment assistance	114,433	...	114,433	1,014,535	...	1,014,535	567,030	...	567,030
Federal unemployment benefits and allowances	31,713	...	31,713	390,542	...	390,542	541,464	...	541,464
Salaries, expenses, and other	9,309	...	9,309	271,266	...	271,266	647,380	...	647,380
Unemployment trust fund:									
Unemployment insurance and employment services:									
Federal--State unemployment insurance:									
State unemployment benefits	275,112	...	275,112	4,404,723	...	4,404,723	5,978,349	...	5,978,349
State administrative expenses	84,501	...	84,501	813,357	...	813,357	776,473	...	776,473
Federal administrative expenses:									
Direct expenses, reimbursements and recoveries	2,464	...	2,464	52,254	...	52,254	38,252	...	38,252
Interest on advances	...	...	...	...	...	...	537	...	537
Interest on refunds	57	...	57	386	...	386	365	...	365
Railroad unemployment insurances:									
Railroad unemployment benefits	4,130	...	4,130	72,827	...	72,827	120,091	...	120,091
Administration expenses	653	...	653	7,403	...	7,403	8,132	...	8,132
Payments of interest on borrowings from railroad retirement account	779	...	779	2,245	...	2,245	3,717	...	3,717
Total--Unemployment trust fund	367,696	...	367,696	5,353,196	...	5,353,196	6,925,913	...	6,925,913
Total--Manpower Administration	627,587	...	627,587	8,505,934	...	8,505,934	10,345,136	...	10,345,136
Labor-Management Services Administration	2,466	...	2,466	24,088	...	24,088	21,464	...	21,464
Employment Standards Administration:									
Salaries and expenses	4,177	...	4,177	52,438	...	52,438	83,135	...	83,135
Federal workmen's compensation benefits	20,634	...	20,634	102,094	...	102,094	103,586	...	103,586
Other	65	...	65	621	...	621	536	...	536

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Date		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Labor Department--Continued									
Occupational Safety and Health Administration	$4,733	....	$4,733	$37,401	....	$37,401	....	....	....
Bureau of Labor Statistics	558	....	558	44,260	....	44,260	$33,122	....	$33,122
Departmental management	5,838	....	5,838	18,595	....	18,595	20,887	....	20,887
Proprietary receipts from the public	....	$116	-116	....	$1,262	-1,262	....	$1,293	-1,293
Intrabudgetary transactions	-957	....	-957	-147,498	....	-147,498	-573,458	....	-573,458
Total--Labor Department	665,101	116	664,985	8,637,934	1,262	8,636,672	10,034,409	1,293	10,033,117
State Department:									
Administration of foreign affairs:									
Salaries and expenses	-6,015	....	-6,015	253,817	....	253,817	242,528	....	242,528
Intragovernmental funds	-133	....	-133	148	....	148	-200	....	-200
Acquisition, operation and maintenance of buildings abroad	1,286	....	1,286	19,250	....	19,250	20,500	....	20,500
Payment to foreign service retirement and disability fund	11,236	....	11,236	14,208	....	14,208	8,572	....	8,572
Foreign service retirement and disability fund	2,797	....	2,797	30,754	....	30,754	26,524	....	26,524
Other	446	....	446	3,289	....	3,289	3,310	....	3,310
Total--Administration of foreign affairs	9,617	....	9,617	321,467	....	321,467	301,234	....	301,234
International organizations and conferences	2,146	....	2,146	182,362	....	182,362	168,938	....	168,938
International commissions	1,096	....	1,096	11,217	....	11,217	11,011	....	11,011
Educational exchange	5,657	....	5,657	50,039	....	50,039	43,048	....	43,048
Other	12,393	....	12,393	46,953	....	46,953	26,150	....	26,150
Proprietary receipts from the public	....	611	-611	....	5,137	-5,137	....	5,023	-5,023
Intrabudgetary transactions:									
Foreign service retirement and disability fund:									
Receipts transferred to civil service retirement and disability fund	-13	....	-13	-129	....	-129	-44	....	-44
General fund contributions	-11,236	....	-11,236	-14,208	....	-14,208	-8,572	....	-8,572
Other	-78	....	-78	-467	....	-467	-430	....	-430
Total--State Department	19,583	611	18,972	597,234	5,137	592,097	541,335	5,023	536,312
Transportation Department:									
Office of the Secretary	4,133	....	4,133	48,380	....	48,380	28,690	....	28,690
Coast Guard:									
Trust revolving funds	122	417	-295	3,883	3,960	-77	3,176	3,457	-281
Intragovernmental funds	1,474	....	1,474	4,626	....	4,626	-6,482	....	-6,482
Other	73,342	....	73,342	777,905	....	777,905	694,329	....	694,329
Federal Aviation Administration:									
Aviation war risk insurance revolving fund	368	2	366	529	2,188	-1,659	1,894	5,308	-3,414
Airport and airway:									
Operations	120,965	....	120,965	1,178,402	....	1,178,402	1,078,253	....	1,078,253
Facilities and equipment	42,935	....	42,935	321,742	....	321,742	377,800	....	377,800
Grants-in-aid for airports	55,059	....	55,059	232,332	....	232,332	105,483	....	105,483
Research, engineering and development	9,230	....	9,230	66,659	....	66,659	58,460	....	58,460
Interest on refunds of taxes	....	....	....	26	....	26	....	....	....
Civil supersonic aircraft development--termination	1,293	....	1,293	6,814	....	6,814	91,229	....	91,229
Federal payment to the airport and airway trust fund	24,669	....	24,669	73,397	....	73,397	646,882	....	646,882
Other	4,102	....	4,102	43,789	....	43,789	168,755	....	168,755
Total--Federal Aviation Administration	258,621	2	258,619	1,923,688	2,188	1,921,500	2,528,756	5,308	2,523,448

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Transportation Department--Continued									
Federal Highway Administration:									
Highway beautification	$3,191	...	$3,191	$21,282	...	$21,282	$11,311	...	$11,311
Forest and public lands highways	2,665	...	2,665	34,683	...	34,683	35,267	...	35,267
Highway trust fund:									
Federal-aid highways	494,881	...	494,881	4,695,558	...	4,695,558	4,657,134	...	4,657,134
Right of way revolving fund	558	...	558	24,904	...	24,904	17,610	$494	17,116
Other	176	...	176	1,836	...	1,836	3,031	...	3,031
Other	11,038	...	11,038	34,120	...	34,120	19,152	...	19,152
Total--Federal Highway Administration	512,509	...	512,509	4,812,384	...	4,812,384	4,743,505	494	4,743,011
National Highway Traffic Safety Administration:									
Traffic and highway safety	7,215	...	7,215	46,442	...	46,442	46,986	...	46,986
State and community highway safety programs	3,033	...	3,033	43,097	...	43,097	70,997	...	70,997
Highway trust fund share of safety programs	...	...	...	50,809	...	50,809	12,936	...	12,936
Federal Railroad Administration:									
Alaska Railroad	2,330	$2,354	-24	27,225	$25,677	1,549	29,621	30,157	-536
High-speed ground transportation research and development	3,802	...	3,802	32,830	...	32,830	20,097	...	20,097
Grants to National Railroad Passenger Corporation	...	...	...	105,800	...	105,800	77,875	...	77,875
Other	1,601	...	1,601	17,616	...	17,616	9,630	...	9,630
Urban Mass Transportation Administration:									
Urban mass transportation fund	36,735	162	36,573	415,575	516	415,059	231,972	298	231,674
Salaries and expenses	...	...	...	...	...	...	382	...	382
Saint Lawrence Seaway Development Corporation	394	911	-517	4,274	8,496	-4,221	3,528	7,656	-4,128
National Transportation Safety Board	640	...	640	7,189	...	7,189	6,901	...	6,901
Proprietary receipts from the public	...	2,371	-2,371	...	23,639	-23,639	...	21,897	-21,897
Intrabudgetary transactions	-24,669	...	-24,669	-73,397	...	-73,397	-902,337	...	-902,337
Total--Transportation Department	881,283	6,217	875,066	8,248,327	64,475	8,183,852	7,600,562	69,267	7,531,295
Treasury Department:									
Office of the Secretary:									
Public enterprise funds	...	294	-294	(*)	739	-739	(*)	838	-838
Salaries and expenses	2,622	...	2,622	15,694	...	15,694	11,275	...	11,275
Federal Law Enforcement Training Center, construction	343	...	343	1,580	...	1,580	2,361	...	2,361
Other	219	...	219	1,732	...	1,732	1,133	...	1,133
Bureau of Accounts:									
Salaries and expenses	14,405	...	14,405	62,422	...	62,422	72,614	...	72,614
Claims, judgements and relief acts	10,980	...	10,980	86,844	...	86,844	64,960	...	64,960
Interest on uninvested funds	784	...	784	6,357	...	6,357	5,923	...	5,923
Payments of Government losses in shipment	13	...	13	293	...	293	768	...	768
Eisenhower College grants	...	...	...	72	...	72	1,688	...	1,688
Other	...	...	...	13	...	13	19	...	19
Total--Bureau of Accounts	26,182	...	26,182	156,000	...	156,000	145,972	...	145,972
Bureau of Alcohol, Tobacco and Firearms	5,791	...	5,791	70,122	...	70,122	...	...	...
Bureau of Customs:									
Salaries and expenses	17,283	...	17,283	205,122	...	205,122	180,523	...	180,523
Intragovernmental funds	...	...	...	...	...	...	...	...	...
Other	8,127	...	8,127	86,308	...	86,308	82,788	...	82,788
Bureau of Engraving and Printing:									
Intragovernmental funds	-2,643	...	-2,643	-1,366	...	-1,366	1,153	...	1,153
Other	...	...	...	82	...	82	13	...	13

See footnotes on page 3.

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Treasury Department--Continued									
Bureau of the Mint:									
Salaries and expenses	$2,738	....	$2,738	$21,092	....	$21,092	$29,275	....	$29,275
Other	89	....	89	1,436	....	1,436	2,165	....	2,165
Bureau of the Public Debt	4,380	....	4,380	72,464	....	72,464	69,388	....	69,388
Internal Revenue Service:									
Salaries and expenses	2,600	....	2,600	34,301	....	34,301	30,994	....	30,994
Accounts, collection and taxpayer service	41,868	....	41,868	511,880	....	511,880	446,123	....	446,123
Compliance	47,916	....	47,916	599,435	....	599,435	613,279	....	613,279
Interest on refunds of taxes	16,612	....	16,612	175,421	....	175,421	182,393	....	182,393
Payments to Puerto Rico for taxes collected	9,498	....	9,498	109,344	....	109,344	101,493	....	101,493
Federal tax lien revolving fund	-84	$23	-107	101	$117	-16	327	$552	-224
Total--Internal Revenue Service	118,410	23	118,387	1,430,481	117	1,430,364	1,374,610	552	1,374,058
Office of the Treasurer:									
Salaries and expenses	1,003	....	1,003	10,824	....	10,824	10,147	....	10,147
Check forgery insurance fund	....	....	....	8	....	8	430	564	-135
U.S. Secret Service	5,886	....	5,886	67,860	....	67,860	55,585	....	55,585
Office of the Comptroller of the Currency	3,460	444	3,016	41,133	47,202	-6,069	37,149	41,159	-4,010
General revenue sharing	-185	....	-185	6,636,369	....	6,636,369	....	....	....
Interest on the public debt (accrual basis):									
Public issues	1,740,021	....	1,740,021	18,967,267	....	18,967,267	17,077,687	....	17,077,687
Special issues	444,323	....	444,323	5,200,226	....	5,200,226	4,771,120	....	4,771,120
Total--Interest on the public debt	2,184,344	....	2,184,344	24,167,493	....	24,167,493	21,848,807	....	21,848,807
Proprietary receipts from the public	....	89,895	-89,895	....	579,744	-579,744	....	467,800	-467,800
Interest and dividends from Export-Import Bank of the United States	....	39,317	-39,317	....	123,406	-123,406	....	95,073	-95,073
Intrabudgetary transactions	-125,235	....	-125,235	-1,251,701	....	-1,251,701	-1,122,779	....	-1,122,779
Total--Treasury Department	2,252,813	129,972	2,122,841	31,732,734	751,208	30,981,526	22,729,995	605,987	22,124,008
Atomic Energy Commission	209,680	10	209,670	2,393,484	475	2,393,009	2,392,374	415	2,391,960
Environmental Protection Agency:									
Revolving fund for certification and other services	36	174	-138	846	636	209	292	341	-49
Other	188,541	56	188,485	1,112,562	97	1,112,466	763,039	89	762,950
General Services Administration:									
Real property activities:									
Intragovernmental funds	37,531	....	37,531	447	....	447	-3,052	....	-3,052
Construction, public buildings projects	16,057	....	16,057	174,160	....	174,160	108,752	....	108,752
Operating expenses, public buildings service	4,648	....	4,648	465,688	....	465,688	418,079	....	418,079
Repair and improvement of public buildings	4,700	....	4,700	73,482	....	73,482	88,168	....	88,168
Sites and expenses, public buildings projects	900	....	900	23,930	....	23,930	25,513	....	25,513
Other	981	....	981	9,458	....	9,458	8,427	....	8,427
Total--Real property activities	64,818	....	64,818	747,166	....	747,166	645,886	....	645,886
Personal property activities:									
Intragovernmental funds	-13,433	....	-13,433	38,475	....	38,475	-55,583	....	-55,583
Other	6,213	....	6,213	94,372	....	94,372	89,047	....	89,047

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
General Services Administration--Continued									
Records activities:									
National Archives trust fund	$417	$805	-$388	$4,636	$5,634	-$998	$4,586	$5,459	-$873
Other	2,646	...	2,646	32,296	...	32,296	29,017	...	29,017
Automated data and telecommunications activities	12,335	...	12,335	2,396	...	2,396	8,635	...	8,635
Property management and disposal activities:									
Public enterprise funds	50	...	50	51	179	-128	(*)	28	-28
Intragovernmental funds	146	...	146	1,640	...	1,640	-257	...	-257
Other	-3,447	...	-3,447	20,608	...	20,608	31,294	...	31,294
General activities:									
Public enterprise funds	...	2	-2	...	1,014	-1,014	1	1,082	-1,081
Intragovernmental funds	2,011	...	2,011	-1,717	...	-1,717	-1,357	...	-1,357
Other	286	...	286	2,590	...	2,590	1,539	...	1,539
Proprietary receipts from the public	...	68,491	-68,491	...	486,536	-486,536	...	146,920	-146,920
Intrabudgetary transactions	-181	...	-181	-697	...	-697	-10,304	...	-10,304
Total--General Services Administration	71,861	69,297	2,564	941,817	493,362	448,455	742,504	153,488	589,016
National Aeronautics and Space Administration	308,550	2,528	306,022	3,329,082	13,384	3,315,698	3,434,842	13,112	3,421,730
Veterans Administration:									
Public enterprise funds:									
Direct loan revolving fund	7,035	30,365	-23,330	123,406	364,531	-241,125	170,921	416,760	-245,838
Loan guaranty revolving fund	22,280	78,737	-56,458	412,123	561,231	-149,108	363,696	417,753	-54,057
Other	17,599	42,804	-25,205	227,068	287,680	-60,612	234,832	319,870	-85,038
Compensation, pensions, and benefit programs	702,109	...	702,109	9,294,602	...	9,294,602	8,061,052	...	8,061,052
Medical care	207,019	...	207,019	2,512,121	...	2,512,121	2,228,900	...	2,228,900
Benefits, refunds and dividends:									
Government life insurance fund	5,989	816	5,173	76,451	10,198	66,253	92,215	11,002	81,213
National service life insurance fund	50,969	7,831	43,137	610,167	91,280	518,887	813,726	93,652	720,074
Other	49,114	15	49,098	526,153	171	525,981	495,726	177	495,549
Proprietary receipts from the public:									
Government life insurance fund	...	783	-783	...	7,963	-7,963	...	8,630	-8,630
National service life insurance fund	...	38,569	-38,569	...	486,697	-486,697	...	478,114	-478,114
Other	...	167	-167	...	1,995	-1,995	...	2,159	-2,159
Intrabudgetary transactions:									
Payments to veterans life insurance funds:									
Government life insurance fund	-4	...	-4	-50	...	-50	-49	...	-49
National service life insurance fund	-171	...	-171	-2,379	...	-2,379	-2,435	...	-2,435
Total--Veterans Administration	1,061,938	200,087	861,851	13,779,663	1,811,746	11,967,917	12,458,584	1,748,116	10,710,469
Other independent agencies:									
Action	15,362	143	15,218	151,310	295	151,015	129,225	339	128,886
Administrative Conference of the United States	37	...	37	364	...	364	418	...	418
American Battle Monuments Commission	68	(*)	68	3,226	4	3,222	3,369	2	3,367
Arms Control and Disarmament Agency	1,885	(*)	1,885	8,686	(*)	8,686	9,006	4	9,002
Cabinet Committee on Opportunities for Spanish-Speaking People	81	...	81	930	...	930	862	...	862
Central Intelligence Agency--Construction	...	...	...	...	...	...	10	...	10
Civil Aeronautics Board:									
Payments to air carriers	4,970	...	4,970	72,223	...	72,223	62,977	...	62,977
Salaries and expenses	1,619	...	1,619	14,325	...	14,325	13,215	...	13,215
Proprietary receipts from the public	...	14	-14	...	132	-132	...	104	-104

See footnotes on page 3.

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Other independent agencies--Continued									
Civil Service Commission:									
Payment to civil service retirement and disability fund	$1,023,011	....	$1,023,011	$1,569,581	....	$1,569,581	$1,161,416	....	$1,161,416
Government payment for annuitants, employees health benefits	....	....	....	137,608	....	137,608	109,568	....	109,568
Civil service retirement and disability fund	383,689	....	383,689	4,523,297	....	4,523,297	3,777,847	....	3,777,847
Employees health benefits fund	181,058	$98,356	82,702	1,426,151	$1,406,878	19,274	1,239,737	$1,293,826	-54,089
Employees life insurance fund	27,688	35,072	-7,383	340,702	491,775	-151,072	371,375	487,488	-116,113
Retired employees health benefits fund	2,254	42	2,212	13,877	15,644	-1,767	14,403	16,066	-1,663
Federal Labor Relations Council	50	....	50	620	....	620	559	....	559
Other	7,915	....	7,915	80,058	....	80,058	60,290	....	60,290
Proprietary receipts from the public	....	691	-691	....	1,224	-1,224	....	6	-6
Intrabudgetary transactions:									
Civil service retirement and disability fund:									
Receipts transferred to foreign service retirement and disability fund	-543	....	-543	-5,541	....	-5,541	-3,528	....	-3,528
General fund contributions	-1,023,011	....	-1,023,011	-1,569,581	....	-1,569,581	-1,161,416	....	-1,161,416
Total--Civil Service Commission	602,111	134,160	467,950	6,516,773	1,915,521	4,601,252	5,570,251	1,797,386	3,772,865
Commission of Fine Arts	10	....	10	143	....	143	128	(*)	128
Commission on Civil Rights	431	....	431	4,620	....	4,620	3,637	....	3,637
Committee for Purchase of Products and Services of the Blind and Other Severely Handicapped	12	....	12	140	....	140	3	....	3
Consumer Product Safety	20	....	20	20	....	20	....	....	....
Corporation for Public Broadcasting	....	....	....	35,000	....	35,000	35,000	....	35,000
District of Columbia:									
Federal payment	....	....	....	185,574	....	185,574	177,740	....	177,740
Loans and repayable advances	24,566	10,000	14,566	175,532	51,661	123,871	185,858	48,640	137,218
Emergency Loan Guarantee Board	35	....	35	-860	1,729	-2,589	-1,242	555	-1,796
Equal Employment Opportunity Commission	2,509	1	2,508	28,148	2	28,146	20,796	1	20,795
Export-Import Bank of the United States	....	....	....	....	....	....	153,074	114,357	[7]38,718
Farm Credit Administration:									
Public enterprise funds	455	1,457	-1,002	5,513	5,633	-120	4,840	5,143	-303
Proprietary receipts from the public	....	1	-1	....	2	-2	....	2	-2
Federal Communications Commission	3,286	2	3,283	33,888	55,778	-21,890	28,515	17	28,498
Federal Deposit Insurance Corporation	6,484	6,651	-167	97,142	634,165	-537,023	118,377	551,157	-432,780
Federal Field Committee for Development Planning in Alaska	109	....	109	-12	....	-12	48	....	48
Federal Home Loan Bank Board:									
Public enterprise funds:									
Federal Savings and Loan Insurance Corp. Fund	-2,402	64,570	-66,972	-59,465	195,653	-255,119	40,481	189,307	-148,826
Other	3,078	2,334	745	28,975	26,273	2,702	26,995	29,066	-2,071
Interest adjustment payments	213	....	213	2,988	....	2,988	....	....	....
Federal Maritime Commission	454	1	453	5,385	28	5,357	5,162	12	5,151
Federal Mediation and Conciliation Service	809	(*)	809	10,641	(*)	10,641	10,011	(*)	10,011
Federal Metal and Nonmetallic Mine Safety Board of Review	3	....	3	37	....	37	47	....	47
Federal Power Commission	1,814	-1,866	3,680	22,473	13	22,460	21,362	15	21,347
Federal Trade Commission	2,249	1	2,247	26,628	15	26,613	24,556	14	24,542
Foreign Claims Settlement Commission	88	....	88	768	....	768	632	(*)	631
Historical and Memorial Commissions	760	-1	761	7,066	5,103	1,963	1,861	1,205	656
Indian Claims Commission	121	(*)	121	1,060	(*)	1,060	1,044	(*)	1,044

See footnotes on page 3.

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)
This Month Current Fiscal Year to Date Comparable Period Prior Fiscal Year

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Other independent agencies--Continued									
Intergovernmental agencies:									
Advisory Commission on Intergovernmental Relations	$26	....	$26	$965	$19	$946	$741	....	$741
Appalachian Regional Commission:									
Salaries, expenses, and other	64	$98	-34	3,973	1,181	2,792	2,349	$869	1,480
Intrabudgetary transactions	....	....	....	-1,401	....	-1,401	-1,089	....	-1,089
Delaware River Basin Commission	5	....	5	283	....	283	246	(*)	246
Interstate Commission on the Potomac River Basin	....	....	....	34	....	34	20	....	20
Susquehanna River Basin Commission	5	....	5	221	....	221	116	....	116
Washinton Metropolitan Area Transit Authority	....	....	....	75,825	....	75,825	83,995	....	83,995
International Radio Broadcasting	....	....	....	38,520	....	38,520	32,000	....	32,000
Interstate Commerce Commission	4,103	3	4,100	44,915	632	44,283	60,099	421	59,678
National Capital Planning Commission	102	....	102	1,302	....	1,302	1,161	180	981
National Commission on Libraries and Information Science	33	....	33	269	....	269	92	....	92
National Council on Indian Opportunity	24	....	24	219	(*)	219	300	(*)	300
National Credit Union Administration:									
Public enterprise funds	901	958	-57	11,759	22,611	-10,852	9,744	19,360	-9,616
Proprietary receipts	....	....	....	....	....	....	....	(*)	(*)
National Foundation on the Arts and the Humanities	7,851	(*)	7,851	65,668	2	65,667	44,022	1	44,022
National Labor Relations Board	3,975	9	3,966	48,414	139	48,275	47,467	147	47,320
National Mediation Board	230	....	230	2,814	(*)	2,814	2,440	....	2,440
National Science Foundation	42,874	15	42,858	582,665	180	582,486	566,620	585	566,035
Occupational Safety and Health Review Commission	328	....	328	3,933	....	3,933	837	....	837
Postal Service	1,005,439	852,008	153,431	11,445,818	10,017,244	[8]1,428,574	12,755,106	10,982,781	1,772,326
President's Council on Youth Opportunity	....	....	....	6	....	6	81	....	81
Railroad Retirement Board:									
Payment for military service credits	....	....	....	21,645	....	21,645	20,757	....	20,757
Railroad retirement accounts:									
Administrative expenses	1,936	....	1,936	20,163	....	20,163	19,721	....	19,721
Benefit payments, etc	218,144	....	218,144	2,419,033	....	2,419,033	2,107,479	....	2,107,479
Interest on refunds of taxes	(*)	....	(*)	17	....	17	7	....	7
Payment to railroad unemployment ins. account	....	....	....	5,572	....	5,572	11,888	....	11,888
Proprietary receipts from the public	....	(*)	(*)	....	1	-1	....	1	-1
Intrabudgetary transactions:									
Railroad retirement accounts:									
Payment for military service credits	....	....	....	-21,645	....	-21,645	-20,757	....	-20,757
Payment from railroad retirement supplemental receipts transferred to railroad unemployment insurance account	....	....	....	-5,572	....	-5,572	-11,888	....	-11,888
Interest on advances to railroad unemployment insurance account	-701	....	-701	-2,166	....	-2,166	-3,717	....	-3,717
Total--Railroad Retirement Board	219,380	(*)	219,380	2,437,047	1	2,437,046	2,123,490	1	2,123,489
Renegotiation Board	354	(*)	354	4,721	2	4,719	4,678	1	4,677
Securities and Exchange Commission	2,592	1	2,591	29,865	15	29,850	25,889	6	25,883
Selective Service System	4,837	(*)	4,836	78,988	14	78,974	74,867	21	74,846
Small Business Administration:									
Public enterprise funds:									
Business loan and investment fund	45,567	25,654	19,913	469,237	305,857	163,379	442,833	300,760	142,073
Disaster loan fund	69,598	9,474	60,124	1,271,949	108,654	1,163,295	372,302	83,095	289,207
Lease guarantees revolving fund	148	471	-324	2,551	4,236	-1,685	1,153	1,897	-744
Other	1,691	....	1,691	20,686	....	20,686	21,095	....	21,095
Proprietary receipts from the public	....	2	-2	....	10	-10	....	16	-16
Intrabudgetary transactions	....	....	....	(*)	....	(*)	....	....	....
Total--Small Business Administration	117,003	35,601	81,402	1,764,422	418,758	1,345,664	837,383	385,767	451,616

See footnotes on page 3.

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Other independent agencies--Continued									
Smithsonian Institution	$5,743	(*)	$5,742	$70,464	$11	$70,453	$57,931	$16	$57,915
Subversive Activities Control Board	35	....	35	338	(*)	338	421	(*)	421
Tariff Commission	472	....	472	5,579	....	5,579	5,126	....	5,126
Temporary Study Commissions	627	(*)	627	10,725	(*)	10,725	10,831	....	10,831
Tennessee Valley Authority:									
Tennessee Valley Authority fund	109,903	$57,210	52,694	1,130,472	763,026	367,446	1,086,152	637,999	448,153
Proprietary receipts from the public	....	4	-4	....	26	-26	....	130	-130
Total--Tennessee Valley Authority	109,903	57,214	52,690	1,130,472	763,052	367,420	1,086,152	638,129	448,023
United States Information Agency:									
Salaries and expenses	21,826	....	21,826	198,512	....	198,512	190,905	....	190,905
Construction of radio facilities	134	....	134	2,388	....	2,388	3,218	....	3,218
Other	469	....	469	5,574	....	5,574	4,191	....	4,191
Proprietary receipts from the public	....	48	-48	....	403	-403	....	418	-418
Total--U. S. Information Agency	22,430	48	22,382	206,474	403	206,071	198,314	418	197,896
Water Resources Council:									
Planning expenses and other	615	86	529	8,664	923	7,741	6,762	534	6,228
Intrabudgetary transactions	-10	....	-10	-1,809	....	-1,809	-1,333	....	-1,333
Total--Other independent agencies	2,221,180	1,163,512	1,057,668	25,451,394	14,117,194	11,334,200	24,685,115	14,766,562	9,918,552
Undistributed intrabudgetary transactions:									
Federal employer contributions to retirement and Social insurance funds:									
Legislative Branch:									
United States Tax Court:									
Tax court judges survivors annuity fund	....	....	....	-30	....	-30	-24	....	-24
The Judiciary:									
Judicial survivors annuity fund	-63	....	-63	-743	....	-743	-707	....	-707
Health, Education, and Welfare Department:									
Federal old-age and survivors insurance trust fund	-56,000	....	-56,000	-615,000	....	-615,000	-579,000	....	-579,000
Federal disability insurance trust fund	-7,000	....	-7,000	-80,000	....	-80,000	-78,000	....	-78,000
Federal hospital insurance trust fund	-13,000	....	-13,000	-121,000	....	-121,000	-85,000	....	-85,000
State Department:									
Foreign service retirement and disability fund	-759	....	-759	-8,798	....	-8,798	-8,128	....	-8,128
Other independent agencies:									
Civil Service Commission:									
Civil service retirement and disability fund	-173,254	....	-173,254	-2,100,924	....	-2,100,924	-2,017,590	....	-2,017,590
Subtotal	-250,076	....	-250,076	-2,926,495	....	-2,926,495	-2,768,449	....	-2,768,449
Interest credited to certain Government accounts:									
The Judiciary:									
Judicial survivors annuity fund	-9	....	-9	-360	....	-360	-302	....	-302
Defense Department:									
Civil:									
Soldiers' and Airmen's Home permanent fund	-766	....	-766	-3,101	....	-3,101	-3,207	....	-3,207

See footnotes on page 3.

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Undistributed intrabudgetary transactions--Continued									
Interest credited to certain Government accounts--Continued									
Health, Education, and Welfare Department:									
Federal old-age and survivors insurance trust fund	-$792,167	....	-$792,167	-$1,847,842	....	-$1,847,842	-$1,718,114	....	-$1,718,114
Federal disability insurance trust fund	-204,182	....	-204,182	-434,739	....	-434,739	-388,438	....	-388,438
Federal hospital insurance trust fund	-83,810	....	-83,810	-197,689	....	-197,689	-189,756	....	-189,756
Federal supplementary medical insurance trust fund	-17,173	....	-17,173	-43,070	....	-43,070	-28,942	....	-28,942
Interior Department:									
Indian tribal funds	-264	....	-264	-14,270	....	-14,270	-8,369	....	-8,369
Labor Department:									
Unemployment trust fund	-166,014	....	-166,014	-487,330	....	-487,330	-496,121	....	-496,121
State Department:									
Foreign service retirement and disability fund	-1,389	....	-1,389	-2,986	....	-2,986	-2,806	....	-2,806
Transportation Department:									
Highway trust fund	-118,532	....	-118,532	-246,740	....	-246,740	-205,630	....	-205,630
Veterans Administration:									
Government life insurance fund	-15,247	....	-15,247	-31,053	....	-31,053	-31,614	....	-31,614
National service life insurance fund	-147,082	....	-147,082	-308,959	....	-308,959	-292,242	....	-292,242
Civil Service Commission:									
Civil service retirement and disability fund	-714,753	....	-714,753	-1,566,219	....	-1,566,219	-1,464,486	....	-1,464,486
Railroad Retirement Board:									
Railroad retirement accounts	-99,144	....	-99,144	-261,606	....	-261,606	-257,764	....	-257,764
Other	(*)	....	(*)	-492	....	-492	-1,275	....	-1,275
Subtotal	-2,360,529	....	-2,360,529	-5,446,456	....	-5,446,456	-5,089,065	....	-5,089,065
Total--Undistributed intrabudgetary transactions	-2,610,605	....	-2,610,605	-8,372,951	....	-8,372,951	-7,857,514	....	-7,857,514
Total outlays	24,597,148	$3,705,575	20,891,573	288,970,475	$42,367,116	246,603,359	265,713,255	$33,837,401	231,875,854
TOTAL BUDGET			(Net Totals)			(Net Totals)			(Net Totals)
Receipts (+)			28,503,506			232,191,842			208,648,559
Outlays (-)			-20,891,573			-246,603,359			-231,875,854
Budget surplus (+) or deficit (-)			+7,611,934			-14,411,517			-23,227,295

MEMORANDUM

Receipts offset against outlays (In thousands)

	Current Fiscal Year to Date	Comparable Period Prior Fiscal Year
Proprietary receipts	$9,626,795	$4,428,138
Interest and dividends from Export-Import Bank of the United States	123,406	95,073
Intrabudgetary transactions	23,111,902	14,979,596
Total receipts offset against outlays	32,862,103	19,502,807

TABLE IV--MEANS OF FINANCING (In thousands)

Classification (Assets and Liabilities Directly Related to the Budget)	Net Transactions (-) denotes net reduction of either liability or asset accounts			Account Balances Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This Month
		This Year	Prior Year	This Year	This Month	
LIABILITY ACCOUNTS						
Borrowing from the public:						
Federal securities:						
Public debt securities	$803,193	$30,881,144	$29,130,716	$427,260,461	$457,338,412	$458,141,605
Agency securities:						
Defense Department:						
Family housing mortgages	-10,542	-102,696	-96,054	1,583,599	1,491,445	1,480,903
Homeowners assistance mortgages	-252	-1,619	1,573	4,303	2,935	2,684
Housing and Urban Development Department:						
Federal Housing Administration	-1,172	-42,120	-32,748	453,770	412,822	411,650
Government National Mortgage Association	....	-440,000	-1,085,000	4,920,000	4,480,000	4,480,000
Transportation Department:						
Coast Guard:						
Family housing mortgages	....	-164	-143	2,792	2,628	2,628
Treasury Department:						
Federal Farm Mortgage Corp. liquidation fund	-4	-19	-1	84	69	65
Other Independent agencies:						
Export-Import Bank of the United States	-320	402,401	-806,241	1,818,655	2,221,376	2,221,056
Federal Home Loan Bank Board:						
Federal Home Loan Bank Board revolving fund	....	-241	-241	5,152	4,911	4,911
Home Owners' Loan Corporation fund	-2	-4	-16	207	206	204
Postal Service	....	....	250,000	250,000	250,000	250,000
Tennessee Valley Authority	80,000	400,000	499,700	1,855,000	2,175,000	2,255,000
Total agency securities	67,708	215,539	-1,269,170	10,893,562	11,041,393	11,109,101
Total Federal securities	870,902	31,096,683	27,861,547	438,154,023	468,379,805	469,250,707
Deduct:						
Federal securities held as investments of Government accounts (See Schedule B)	3,239,686	11,821,392	8,419,740	113,559,439	122,141,146	125,380,831
Non-interest-bearing public debt securities held by International Monetary Fund	....	....	....	825,000	825,000	825,000
Total borrowing from the public	-2,368,784	19,275,291	19,441,806	323,769,584	345,413,659	343,044,875
Accrued interest payable on public debt securities	-1,305,192	231,143	252,415	2,641,612	4,177,947	2,872,755
Deposit funds:						
Allocations of special drawing rights	....	....	906,826	2,490,606	2,490,606	2,490,606
Other	-221,900	-652,571	495,692	4,539,334	4,108,662	3,886,763
Miscellaneous liability accounts (includes checks outstanding etc.)	975,497	-2,299,076	3,652,990	9,902,794	6,628,222	7,603,718
Total liability accounts	-2,920,379	16,554,788	24,749,729	343,343,929	362,819,096	359,898,717
ASSET ACCOUNTS (Deduct)						
Cash and monetary assets:						
Within general account of Treasurer, U.S.	4,398,128	2,431,660	1,668,473	11,309,647	9,343,179	13,741,307
With other Government officers:						
Special drawing rights:						
Total holdings	....	-8,181	710,921	1,957,632	1,949,450	1,949,450
Certificates issued to Federal Reserve Banks	....	....	....	-400,000	-400,000	-400,000
Balance	....	-8,181	710,921	1,557,632	1,549,450	1,549,450
Other	360,186	-1,301,168	1,078,832	3,687,761	2,026,408	2,386,594
With International Monetary Fund	....	50,000	-988,467	515,533	565,533	565,533
Total cash and monetary assets	4,758,314	1,172,311	2,469,759	17,070,573	13,484,570	18,242,884
Miscellaneous asset accounts	24,855	756,783	349,731	2,174,775	2,906,703	2,931,558
Total asset accounts	4,783,169	1,929,094	2,819,490	19,245,348	16,391,272	21,174,441
Excess of liabilities (+) or assets (-)	-7,703,548	+14,625,694	+21,930,240	+324,098,582	+346,427,823	+338,724,276
TRANSACTIONS NOT APPLIED TO CURRENT YEAR'S SURPLUS OR DEFICIT (Add)						
Seigniorage	32,061	395,133	580,591	....	363,071	395,133
Increment on gold	....	....	861,698	....	....	....
Off-budget Federal agencies:[9]						
Net receipts or outlays (-)	59,553	-609,309	-145,234	....	-668,862	-609,309
Total	91,614	-214,177	1,297,056	....	-305,791	-214,177
Total budget financing [Financing of deficit (+) or disposition of surplus (-)]	-7,611,934	+14,411,517	+23,227,295	+324,098,582	+346,122,033	+338,510,099

See footnotes on page 3.

TABLE IV--SCHEDULE A--ANALYSIS OF CHANGE IN EXCESS OF LIABILITIES (In thousands)

Classification	This Month	Fiscal Year to Date	
		This Year	Prior Year
Excess of liabilities beginning of period:			
Based on composition of unified budget in preceding period ..	$346,427,823	$324,098,582	$302,168,342
Adjustments during current fiscal year for changes in composition of unified budget	....	....	....
Excess of liabilities beginning of period (current basis)	346,427,823	324,098,582	302,168,342
Budget surplus (-) or deficit:			
Based on composition of unified budget in prior fiscal year ..	-7,611,934	14,411,517	23,227,295
Adjustments during current fiscal year for changes in composition of unified budget	....	....	....
Budget surplus (-) or deficit (Table III)	-7,611,934	14,411,517	23,227,295
Transactions not applied to current year's surplus or deficit:			
Off-budget Federal agencies:			
Export-Import Bank of the United States	-110,456	549,515	145,234
Rural Electrification and Telephone revolving fund	50,904	[6] 59,794	....
Other	-32,061	-395,133	-1,442,290
Total	-91,614	214,177	-1,297,056
Excess of liabilities close of period	338,724,276	338,724,276	324,098,582

See footnotes on page 3.

TABLE IV--SCHEDULE B--INVESTMENTS OF GOVERNMENT ACCOUNTS IN FEDERAL SECURITIES (In thousands)

Classification	Net Purchases or Sales (-)			Securities Held as Investments Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This Month
		This Year	Prior Year	This Year	This Month	
Legislative Branch:						
Library of Congress	...	-$11	-$20	$11	...	...
United States Tax Court	...	48	49	301	$349	$349
The Judiciary:						
Judicial survivors annuity fund	$195	914	895	7,234	7,953	8,148
Agriculture Department:						
Public debt securities	770	6,386	-640	1,616	7,232	8,002
Agency securities	...	-6,000	-6,002	59,215	53,215	53,215
Commerce Department	500	9,710	10,310	38,526	47,736	48,236
Defense Department	...	-177	-71	952	775	775
Health, Education, and Welfare Department:						
Federal old-age and survivors ins. trust fund:						
Public debt securities	326,380	2,298,046	1,877,346	32,647,577	34,619,243	34,945,623
Agency securities	...	...	-50,000	555,000	555,000	555,000
Federal disability insurance trust fund:						
Public debt securities	287,172	791,575	983,898	7,011,654	7,516,057	7,803,229
Agency securities	...	...	-50,000	...	...	...
Federal hospital insurance trust fund:						
Public debt securities	492,791	1,338,407	-145,898	2,833,958	3,679,574	4,172,365
Agency securities	...	...	...	50,000	50,000	50,000
Federal supplementary medical ins. trust fund	-8,291	221,556	220,648	478,075	707,922	699,631
Other	...	-97	...	179	82	82
Housing and Urban Development Department:						
Community Development Planning and Management:						
New Communities Guarantee fund	1,735	3,511	2,602	4,827	6,603	8,338
Federal Housing Administration:						
Federal Housing Administration fund:						
Public debt securities	78	40,006	115,514	1,098,371	1,138,300	1,138,378
Agency securities	-29	-9,029	-6,549	206,027	197,026	196,997
Housing Management:						
Community disposal operations fund:						
Public debt securities	...	-154	42	154	...	...
Agency securities	...	...	...	388	388	388
Rental housing assistance fund	1,000	5,828	2,272	2,743	7,571	8,571
Government National Mortgage Association:						
Participation sales fund:						
Public debt securities	33,024	277,167	-295,193	599,950	844,092	877,116
Agency securities	7,665	21,650	93,475	98,475	112,460	120,125
Guarantees of Mortgage-Backed Securities	438	4,661	2,776	3,421	7,644	8,082
Management and liquidating functions fund:						
Agency securities	-136	-2,316	-2,357	50,352	48,172	48,036
Special assistance functions fund:						
Agency securities	-1,400	-6,839	-8,694	97,371	91,933	90,533
Federal Insurance Administration:						
National Insurance development fund	...	5,826	854	75,160	80,986	80,986
Interior Department:						
Public debt securities	176	39	-24,685	876	739	915
Agency securities	...	...	-1,000	...	...	...
Labor Department:						
Unemployment trust fund:						
Public debt securities	552,694	1,144,212	-1,328,370	9,812,535	10,404,053	10,956,747
Agency securities	...	...	-100,000	...	...	...
Other	-9	-42	-9	73	40	31
State Department:						
Foreign service retirement and disability fund	11,192	5,993	6,108	58,569	53,370	64,562
Other	-40	60	...	130	230	190
Transportation Department:						
Highway trust fund	61,221	1,093,670	821,513	4,456,381	5,488,830	5,550,051
Other	(*)	-10	-3	32	23	23
Treasury Department	13,751	353,449	1,200,525	2,614,708	2,954,406	2,968,157
General Services Administration	...	1,325	-527	1,157	2,482	2,482

See footnotes on page 3.

TABLE IV--SCHEDULE B--INVESTMENTS OF GOVERNMENT ACCOUNTS IN FEDERAL SECURITIES--Continued (In thousands) 27

Classification	Net Purchases or Sales (-)			Securities Held as Investments Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This Month
		This Year	Prior Year	This Year	This Month	
Veterans Administration:						
Veterans reopened insurance fund	$8,531	$32,787	$31,207	$220,206	$244,462	$252,993
Veterans special life insurance fund	3,524	31,610	27,998	321,028	349,114	352,638
Government life insurance fund	9,249	-26,895	-41,618	716,600	680,456	689,705
National service life insurance fund:						
Public debt securities	135,085	272,281	87,194	6,155,084	6,292,280	6,427,365
Agency securities	....	....	-25,000	310,000	310,000	310,000
Other	-500	-11,361	11,360	12,790	1,929	1,429
Other independent agencies:						
Civil Service Commission:						
Civil service retirement and disability fund:						
Public debt securities	1,717,750	3,197,590	3,040,753	27,293,189	28,773,029	30,490,779
Agency securities	....	....	-100,000	375,000	375,000	375,000
Employees health benefits fund	-60,131	-17,546	60,205	206,153	248,738	188,607
Employees life insurance fund	10,125	151,656	118,852	1,091,126	1,232,657	1,242,782
Retired employees health benefits fund	....	5,300	2,961	31,081	36,381	36,381
Emergency Loan Guarantee Board	....	3,230	1,085	1,085	4,315	4,315
Federal Deposit Insurance Corporation	-2,848	537,323	437,838	5,098,506	5,638,677	5,635,829
Federal Savings and Loan Insurance Corporation:						
Public debt securities	66,898	258,192	147,642	2,648,384	2,839,678	2,906,576
Agency securities	....	-1,600	....	143,550	141,950	141,950
National Credit Union Administration:						
National credit union share insurance fund	-100	10,904	9,912	16,185	27,189	27,089
Postal Service:						
Public debt securities	-423,146	-180,898	1,265,811	1,265,811	1,508,059	1,084,913
Agency securities	-27,910	-99,410	104,410	104,410	32,910	5,000
Railroad Retirement Board:						
Public debt securities	15,701	24,125	-110,078	4,534,777	4,543,201	4,558,902
Agency securities	....	....	....	50,000	50,000	50,000
Other	6,580	34,740	30,400	98,480	126,640	133,220
Total public debt securities	3,261,496	11,924,936	8,571,456	111,459,652	120,123,092	123,384,588
Total agency securities	-21,810	-103,544	-151,716	2,099,787	2,018,053	1,996,243
Grand Total	3,239,686	11,821,392	8,419,740	113,559,439	122,141,146	125,380,831
MEMORANDUM						
Investments in securities of privately owned Government-sponsored enterprises:						
Milk market orders assessment fund	....	....	-173	....	....	....
Investments in non federal debt securities of Farmers Home Administration:						
Postal Service	....	....	....	....	....	....
Total	....	....	-173	....	....	....

TABLE V--COMPARATIVE STATEMENT OF BUDGET RECEIPTS AND OUTLAYS BY MONTHS OF CURRENT FISCAL YEAR (In millions)

(Figures are rounded in millions of dollars and may not add to totals)

Classification	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June	Fiscal Year To Date	Comparable Period Prior F.Y.
RECEIPTS														
Individual income taxes	$7,355	$8,380	$11,005	$7,595	$8,613	$8,206	$12,897	$8,067	$3,409	$11,587	$3,825	$12,321	$103,261	$94,737
Corporation income taxes	1,071	665	4,965	965	559	5,632	1,382	672	4,867	5,657	923	8,739	36,096	32,166
Social insurance taxes and contributions:														
Employment taxes and contributions	3,728	5,367	3,674	3,239	4,044	2,606	3,972	6,067	4,957	5,614	6,915	4,687	54,870	46,120
Unemployment insurance	260	1,175	62	209	637	93	174	684	63	445	2,156	107	6,063	4,357
Contributions for other insurance and retirement	289	307	301	311	288	276	340	278	320	301	309	291	3,612	3,437
Excise taxes	1,442	1,351	1,327	1,387	1,452	1,286	1,437	1,186	1,244	1,318	1,446	1,397	16,272	15,477
Estate and gift taxes	334	423	316	409	487	364	396	568	489	330	466	317	4,898	5,436
Customs	237	278	237	281	284	234	289	255	278	262	280	261	3,175	3,287
Miscellaneous	492	266	295	343	383	276	244	289	360	348	264	384	3,944	3,633
Total--receipts this year	15,207	18,213	22,183	14,738	16,748	18,972	21,130	18,067	15,987	25,860	16,584	28,504	232,192	
Total--receipts prior year	*13,221*	*15,641*	*19,719*	*12,450*	*14,933*	*17,216*	*17,605*	*15,241*	*15,224*	*24,533*	*17,272*	*25,593*		*208,649*
OUTLAYS														
Legislative Branch	35	48	37	39	47	56	47	53	44	42	44	49	540	487
The Judiciary	13	13	14	15	17	16	14	15	17	13	18	17	183	173
Executive Office of the President	6	6	5	4	4	5	6	5	5	5	5	6	60	54
Funds appropriated to the President:														
International security assistance	-170	80	61	88	118	157	117	31	157	42	39	451	1,171	1,523
International development assistance	74	90	72	97	143	101	125	98	-128	96	137	120	1,025	1,319
Other	88	128	124	116	107	108	139	129	106	153	115	214	1,528	1,434
Agriculture Department:														
Foreign assistance, special export programs and Commodity Credit Corporation	2,433	831	177	520	285	220	86	67	23	47	-38	-134	4,517	5,066
Other	255	700	224	562	395	-15	1,277	703	305	596	100	568	5,671	5,869
Commerce Department	89	147	103	115	100	114	128	100	122	96	90	158	1,363	1,250
Defense Department:														
Military:														
Department of the Army	1,391	1,259	1,551	1,707	1,815	1,728	1,789	1,690	1,776	1,784	1,567	2,175	20,231	22,596
Department of the Navy	1,381	1,670	1,459	1,861	1,937	1,859	1,919	1,882	1,962	1,990	2,089	2,452	22,461	22,336
Department of Air Force	1,948	2,011	1,808	1,968	1,873	1,844	1,983	1,911	2,138	1,948	1,991	2,191	23,615	23,999
Defense agencies	469	717	378	524	620	528	636	584	751	477	584	677	6,945	6,146
Civil defense	3	6	8	6	6	7	5	7	6	7	6	8	74	75
Allowances undistributed	.....	.....	......	.....	.....	.....	......	.....	......	....	.....	.....	......	....
Total Military	5,193	5,662	5,204	6,066	6,250	5,965	6,332	6,075	6,633	6,207	6,238	7,503	73,327	75,151
Civil	109	140	185	186	162	112	128	101	118	118	112	233	1,704	1,530
Health, Education, and Welfare Department:														
Social and Rehabilitation Service	1,051	1,045	1,167	1,585	1,008	1,325	1,244	1,039	340	918	1,401	1,285	13,408	14,157
Federal old-age and survivors insurance trust fund	2,993	2,998	3,001	3,604	3,671	3,639	3,721	3,791	3,866	3,857	4,652	3,882	43,677	35,848
Federal disability insurance trust fund	380	384	387	453	452	466	465	478	491	490	515	509	5,468	4,310
Federal hospital insurance trust fund	386	453	663	613	550	527	595	548	656	587	629	635	6,841	6,275
Federal supplementary medical insurance trust fund	148	190	274	245	225	198	230	197	235	227	236	229	2,635	2,544
Other	498	942	778	544	1,131	818	866	998	966	1,046	150	1,242	9,980	8,646

TABLE V--COMPARATIVE STATEMENT OF BUDGET RECEIPTS AND OUTLAYS BY MONTHS OF CURRENT FISCAL YEAR--Continued (In millions)

(Figures are rounded in millions of dollars and may not add to totals)

Classification	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June	Fiscal Year To Date	Comparable Period Prior F.Y.
OUTLAYS--Continued														
Housing and Urban Development Department	$513	$623	$358	$158	$353	$366	$459	$309	$205	$163	-$205	$296	$3,600	$3,642
Interior Department	-988	177	9	-310	78	-179	-1,174	95	97	84	95	-204	-2,219	1,256
Justice Department	108	107	131	130	126	109	121	139	153	131	139	137	1,531	1,180
Labor Department:														
Unemployment trust fund	513	453	372	348	386	465	562	534	523	459	372	368	5,353	6,926
Other	338	345	237	258	276	211	245	227	291	257	301	297	3,283	3,107
State Department	112	48	43	69	41	50	42	45	45	50	29	19	592	536
Transportation Department:														
Highway trust fund	487	515	494	503	477	374	321	217	275	228	334	496	4,722	4,677
Other	261	289	244	311	252	279	370	254	250	257	314	379	3,462	2,854
Treasury Department:														
Interest on the public debt	1,872	1,867	1,911	1,933	1,934	1,957	2,070	2,010	2,128	2,144	2,157	2,184	24,167	21,849
Interest on refunds, etc.	12	15	19	12	14	12	13	10	17	13	27	17	182	188
General revenue sharing	.....	.....	.....	.....	.....	2,617	2,514	9	(**)	1,493	3	(**)	6,636	....
Other	-23	-19	61	-225	149	-67	-387	120	330	110	26	-79	-4	87
Atomic Energy Commission	146	199	171	191	187	196	210	210	225	219	229	210	2,393	2,392
Environmental Protection Agency	43	83	83	74	71	89	63	65	134	107	111	188	1,113	763
General Services Administration	101	89	54	48	54	-75	82	37	52	28	-23	3	448	589
National Aeronautics and Space Administration	289	289	273	271	272	284	271	241	301	265	255	306	3,316	3,422
Veterans Administration:														
Compensation, pension, and benefit programs	612	644	610	703	1,034	844	807	825	851	847	814	702	9,295	8,061
Government life insurance fund	5	5	4	4	5	6	6	6	6	6	9	5	66	81
National service life insurance fund	35	37	33	32	35	41	51	50	54	51	55	43	519	720
Other	230	169	184	154	202	95	290	162	149	206	136	111	2,088	1,848
Other independent agencies:														
Civil Service Commission	329	372	373	371	390	390	370	383	369	400	386	468	4,601	3,773
Export-Import Bank of the United States	.....	.....	.....	.....	.....	.....	......	......	.....	....	......	....	....	39
Postal Service	-59	189	49	54	99	-243	499	181	232	124	150	153	1,429	1,772
Small Business Administration	29	170	208	46	97	188	233	83	136	53	22	81	1,346	452
Tennessee Valley Authority	12	34	41	59	39	45	-6	16	5	45	24	53	367	448
Other	285	430	309	285	282	332	372	-35	350	347	332	302	3,591	3,435
Undistributed intrabudgetary transactions:														
Federal employer contributions to retirement fund	-228	-249	-238	-229	-223	-208	-279	-251	-264	-248	-260	-250	-2,926	-2,768
Interest credited to certain accounts	-24	-160	-37	-47	-130	-2,266	-18	-146	-65	-76	-118	-2,361	-5,446	-5,089
Allowances undistributed	.....	.....	.....	.....	.....	.....	......	......	.....	....	......	....	....	....
Total outlays--this year	18,591	20,581	18,471	20,055	21,165	19,721	23,631	20,227	20,806	22,306	20,157	20,892	246,603	
Total Outlays--prior year	*18,568*	*19,581*	*18,202*	*18,781*	*18,932*	*17,490*	*19,481*	*18,764*	*20,329*	*18,597*	*19,777*	*23,375*		*231,876*
Surplus (+) or deficit (-) this year	-3,384	-2,369	+3,712	-5,317	-4,418	-750	-2,501	-2,160	-4,820	+3,554	-3,573	+7,612	-14,412	
Surplus (+) or deficit (-) prior year	*-5,348*	*-3,940*	*+1,518*	*-6,330*	*-3,998*	*-275*	*-1,876*	*-3,523*	*-5,105*	*+5,937*	*-2,506*	*+2,219*		*-23,227*

See footnotes on page 3.

TABLE VI--TRUST FUND IMPACT ON BUDGET RESULTS AND INVESTMENT HOLDINGS (In millions)

Classification	Current Month: Receipts	Current Month: Outlays	Current Month: Excess of receipts or outlays (-)	Fiscal Year to Date: Receipts	Fiscal Year to Date: Outlays	Fiscal Year to Date: Excess of receipts or outlays (-)	Securities Held as Investments Current Fiscal Year: Beginning of This Year	Securities Held as Investments Current Fiscal Year: Beginning of This month	Securities Held as Investments Current Fiscal Year: Close of this month
Trust receipts, outlays, and investments held:									
Federal old-age and survivors insurance	$2,949	$3,034	-$85	$40,713	$39,956	$756	$33,203	$35,174	$35,501
Federal disability insurance	580	298	282	5,378	4,882	495	7,012	7,516	7,803
Federal hospital insurance	1,041	538	503	7,597	6,093	1,504	2,884	3,730	4,222
Federal supplementary medical insurance	111	98	13	1,426	1,161	265	478	708	700
Federal employees retirement	180	-1,538	1,719	2,186	-714	2,900	27,668	29,148	30,866
Federal employees life and health benefits	....	78	-78	....	-134	134	1,328	1,518	1,468
Federal Deposit Insurance Corp	....	(*)	(*)	....	-537	537	5,099	5,639	5,636
Airport and airway	66	108	-42	758	654	104	....	....	....
General revenue sharing	....	(*)	(*)	8,295	6,637	1,658	....	....	....
Highway	472	377	95	5,665	4,526	1,139	4,456	5,489	5,550
Indian tribal funds	....	-11	11	....	-9	9	1	1	1
Military assistance advances	....	116	-116	....	-335	335	....	....	....
Railroad retirement	117	120	-4	1,183	2,154	-971	4,585	4,593	4,609
Unemployment	107	203	-95	6,063	4,720	1,344	9,813	10,404	10,957
Veterans life insurance	....	-154	154	....	-252	252	7,183	7,285	7,428
All other trust	4	-17	21	24	-29	53	98	103	112
Trust funds receipts and outlays on the basis of Table III and investments held from Table IV--B	5,627	3,249	2,378	79,288	68,774	10,514	103,807	111,307	114,852
Intragovernmental receipts offset against trust fund outlays	3,787	3,787	....	12,718	12,718	....			
Total trust fund receipts and outlays	9,414	7,036	2,378	92,006	81,492	10,514			
Federal fund receipts and outlays on the basis of Table III	22,877	17,643	5,234	161,198	186,124	-24,926			
Intragovernmental receipts offset against Federal fund outlays	8	8	....	121	121	....			
Total Federal fund receipts and outlays	22,885	17,651	5,234	161,319	186,245	-24,926			
Total intragovernmental receipts and outlays	-3,795	-3,795	....	-21,134	-21,134	....			
Net budget receipts and outlays	28,504	20,892	7,612	232,192	246,603	-14,412			

See footnotes on page 3.

Note: Intragovernmental receipts and outlays are transactions between Federal funds and trust funds, such as, Federal payments and contributions, Federal employer contributions, and interest and profits on investments in Federal securities. They have no net effect on overall budget receipts and outlays since the receipt side of such transactions is offset against budget outlays. In this table, intragovernmental receipts are shown as an adjustment to arrive at total receipts and outlays of trust funds and Federal funds respectively. Included in total intragovernmental receipts and outlays are $8,295 million in federal funds transferred to trust funds for general revenue sharing.

TABLE VII--SUMMARY OF RECEIPTS BY SOURCE AND OUTLAYS BY FUNCTION (In thousands) 31

Source	Total Budget		
	This Month	Fiscal Year To Date	Comparable Period Prior Fiscal Year
NET RECEIPTS			
Individual income taxes	$12,321,123	$103,260,527	$94,736,616
Corporation income taxes	8,739,442	36,096,144	32,165,916
Social Insurance taxes and contributions:			
Employment taxes and contributions	4,686,721	54,870,061	46,119,776
Unemployment insurance	106,515	6,063,441	4,356,671
Contributions for other insurance and retirement	291,428	3,612,261	3,437,322
Excise taxes	1,397,343	16,271,536	15,476,901
Estate and gift taxes	316,532	4,898,489	5,435,862
Customs	260,759	3,175,268	3,286,906
Miscellaneous	383,644	3,944,115	3,632,589
Total	28,503,506	232,191,842	208,648,559
OUTLAYS			
National defense	8,043,257	76,055,667	78,336,072
International affairs and finance	488,575	3,185,343	3,785,746
Space research and technology	306,022	3,315,699	3,421,763
Agriculture and rural development	3,448	6,180,602	7,061,398
Natural resources	173,139	610,604	3,759,276
Commerce and transportation	1,307,011	12,392,883	11,196,707
Community development and housing	313,558	4,166,696	4,215,694
Education and manpower	1,336,408	10,820,501	10,198,471
Health	1,645,922	18,359,453	16,980,431
Income security	6,552,936	72,834,876	64,557,519
Veterans benefits and services	865,501	12,003,592	10,747,366
Interest	2,015,911	22,796,433	20,584,295
General government	450,673	5,617,593	4,888,631
General revenue sharing	-185	6,636,369	....
Undistributed intrabudgetary transactions	-2,610,605	-8,372,951	-7,857,514
Total	20,891,573	246,603,359	231,875,854

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GPO 863-764

249A

FOR IMMEDIATE RELEASE July 26, 1973

Office of the White House Press Secretary

THE WHITE HOUSE

STATEMENT BY THE PRESIDENT

The best way to hold down the cost of living is to hold down the cost of Government. Today there is new and encouraging evidence that we can win that battle.

The latest Monthly Statement of Receipts and Outlays shows that Federal outlays for fiscal year 1973 were held to $246.6 billion -- a figure well below the $250 billion ceiling on spending that I had recommended to the Congress. Since overall receipts totaled $232.2 billion, the deficit for fiscal year 1973 was $14.4 billion. This was a much smaller deficit than the $24.8 billion deficit projected in my Budget Message last January. Moreover, the budget was within $2 billion of being in balance during the period from January to June of this year -- a period when it was especially important to hold down Government spending.

During the debates on budget policy last fall and last winter, it was widely assumed and frequently asserted that we could not hold spending to the $250 billion level and that the only way to produce an anti-inflationary budget was by increasing taxes. I rejected that contention then -- and I reject it now, as we look to a new fiscal year. We held the budget line in the year just past without raising taxes. I believe we can do so again -- and, in fact, achieve a balanced budget -- in fiscal year 1974.

In earlier years, budget deficits have sometimes helped take the slack out of the economy and increase employment. However, we recognized in the summer of 1972 that a major problem was developing as the economic boom got well underway. We could foresee that the pressures from existing Federal programs and new legislation could push spending for fiscal year 1973 to $260 billion or more -- much more than we thought an already strong economy could tolerate without greater inflation. I therefore called upon the Congress to hold the line on spending at $250 billion.

The Congress has acted responsibly on that request. There have been many differences between the Congress and the Administration over the level of Federal spending on many specific programs, but the important point is that our overall spending goal has been achieved.

I recall how both Houses of the Congress approved legislation last fall to set a ceiling in Federal spending at the $250 billion level. While technical differences prevented the two Houses from agreeing on a common version of that ceiling, and while overall Congressional action for the last fiscal year eventually contemplated much higher expenditures, it was clear nevertheless that a majority in both Houses of the Congress accepted in principle the advisability of holding spending to a lower level. When the chips were down, it was that spirit of restraint which prevailed.

I trust that the two branches can forge an effective partnership on behalf of budgetary responsibility again in this new fiscal year -- and that one year from now the figures will show that the budget for fiscal year 1974 was in balance. The fact that we nearly achieved a balance in the second half of fiscal year 1973 encourages us to believe this a realistic objective.

It should not be overlooked, however, that the veto of certain bills and the reserving of certain funds was essential in achieving our budgetary goals for the past twelve months. Inflation continues to be our most important

(MORE)

2-49 B

economic problem -- and budget and monetary restraint continue to be our most important tools for fighting it. Our Phase IV controls will help to moderate inflation, but a balanced budget and monetary restraint must be our major weapons against rising prices.

With the economy now operating at a high level, revenues in fiscal year 1974 should approximate, without any tax increases, the overall level of expenditures I proposed last January -- about $269 billion. Balancing the budget therefore means that we must hold expenditures to that level in the coming year, despite the fact that higher prices, higher interest rates and new legislation will all be working to drive spending higher. I am confident that with the continuing cooperation of the Congress we can meet that goal and thus help protect the American people against the twin dangers of higher prices and higher taxes.

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Department of the TREASURY
WASHINGTON, D.C. 20220 TELEPHONE W04-2041
NEWS
250

FOR IMMEDIATE RELEASE July 26,1973

WITHHOLDING OF APPRAISEMENT ON PRIMARY LEAD METAL FROM CANADA

Assistant Secretary of the Treasury Edward L. Morgan announced today a withholding of appraisement on primary lead metal from Canada pending a determination as to whether it is being sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended. This lead metal is used chiefly in the production of storage batteries, pigments and chemicals, including gasoline additives.

The decision will appear in the Federal Register of July 27, 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 year beginning May 1972, imports of primary lead metal from Canada amounted to approximately $18.6 million.

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251A

SECRETARY EARL BUTZ: Will you please come in and take your seats here, please, and those in the aisles get to your seats as quietly as possible. We want to move ahead.

I could take a lot of time introducing our speaker. You know who he is. He's perhaps the most multi-purpose gentleman in the whole government here. He came to government first as secretary of Labor, having been a labor expert at the University of Chicago before he became dean of the School of Business Administration there, and during the time he was dean too [sic]. He came down here as secretary of Labor initially in this administration. When the President created the Office of Management and Budget, he asked Dr. Shultz to move over and become the first Director of the combined Office of Management and Budget, at which time he took a substantial salary cut, which is indicative of the fact that he was a professor. They have no more sense than to do something like that.

[Laugher.]

From that post, a year and a half ago, the President asked him to assume the post of secretary of the Treasury, an extremely critical post in government. And for some months now, he's been doubling in that post and also as counsellor to the President for the whole economic area of the government, where he serves it very, very well.

He's a native of New York City. He overcame that handicap in life. He graduated from Princeton, which probably didn't help too much. [Laughter.] And then he went on to M. I. T., Massachusetts Institute of Technology, where he got his Ph. D., and that's better than Harvard. We congratulate you for that.

I first met Dr. Shultz when he was dean of the School of Business Administration at the University of Chicago. And I was a fellow dean -- not a fellow dean, but a dean at Purdue University at the same time. Whenever I introduce a fellow dean like this, I'm always reminded of the experience I had a little while back riding the airplane. Three men [were] seated across the aisle from me who didn't know each other. "Three men" there gives it

251

U. S. TREASURY DEPARTMENT

SECRETARY GEORGE SHULTZ: ADDRESS

U. S. Department of Agriculture

Washington, D. C.

July 24, 1973

252

away; I was travelling tourist. [Laughter.] And one of them started a conversation. He said "I think we ought to get acquainted." He gave his name. And he said, "I'm dean at state college. I'm married. I have one son. He is an agricultural attache." And the second one said, "Well, that's interesting. I'm" -- he gave his name. He said, "I'm a dean at state university. I'm married. I also have one son, and he's an agricultural attache." And the third man paused a bit. He said, "Boys, in the present context, I'm a little embarrassed. You see, I'm an agricultural attache. I'm not married. I have one son, and he's a dean."

[Laughter.]

I give you the secretary of the Treasury.

[Applause.]

SECRETARY GEORGE SHULTZ: Well, I think I should add to Earl's story about deans, the reason why we both stopped being dean, because we heard about that old saying that old deans never die; they just lose their faculties.

[Laughter.]

I appreciate the introduction, but I should say that George Meany did a much more straightforward job on me the other day. He was introducing me to a union group. And he said very simply -- he said, I introduce to you the greatest secretary of the Treasury since John Connally."

[Laughter.]

So I get it everywhere.

[Laughter.]

I expected that I would come over here and there would be a small group of people who were the attaches from around the world, and we could have a nice intimate discussion about your problems and our problems as they relate to yours. And so I accepted the invitation on that basis, and I'm here without a note and without a speech, and I find it's like appearing before a Senate committee. Over here in the Agriculture Department, everything is televised, and I'm a little nonplussed. But what I thought I would do is talk about a subject that seems to me very central to your work, and it certainly hooks what you do and the problems that are very much on the front burner in this country together. And that is, of course, the problem of inflation and what we are doing about it, and the relationship to it of what is happening to food prices as a central element. And I'll talk about, in a general way, what we are doing. And then I want to wind up with some comments about what it seems to me, any way, you can do for us to help with the problem. And I mean this in a very personal and direct way, because I think our information about what is going on is so critical to our understanding and to the policy decisions that are made.

Now I would classify our program in dealing with inflation basically under four headings. And the first, and I'm sure, as economists, we would all agree most important, is a policy of discipline on the budget and restraint on monetary policy. That is an essential ingredient; it always has been; it will be. It works. And without it, we're nowhere. So we must continue on that path, and we must continue to exercise restraint and discipline on the budget. That is a primary task of the executive branch, and we count on the Federal Reserve to behave in a similar fashion on the monetary side.

Now the question is, do we have what it takes to exercise the necessary discipline? And I think, in terms of the fiscal 1974 budget, which is the year that we're now in, the measure of restraint is whether or not we can achieve a balanced budget in this fiscal year. And I believe that is the right fiscal policy, and I believe it can be done. That is the President's goal. Revenues have been rising for a variety of reasons, some good, some not so good. But they have been rising, and they have risen in our estimates approximately to the level of the President's budget request made in January. There is no reason why we can't exercise the discipline we need to hold spending within that framework and, therefore, balance the budget. And that is what we need in this fiscal year.

Now, I know that there is a tremendous amount of controversy involving the Congress and the administration about the budget and the composition of the budget, and so on and so forth. But as I have gone around and testified before I think at least as many committees as you do, Earl -- and the subject of the budget comes up practically always -- I find that, with all the controversy, there is basically very little controversy about the desirability of holding federal spending under control. Everybody agrees on that. So that is a good marker for us. And I believe and I hope that, as we work at this problem and as the similarity of view on the overall objective really takes hold -- and I think the American people are very much behind us -- we will be able to keep this spending under control.

Now, we are about now ready now -- we've about finished the tabulations in the Treasury on what has actually happened in fiscal 1973. And the results of that, which they ought to be able to announce tomorrow -- not quite prepared yet -- the results of that we know enough about to say that not only has the President achieved the goal of staying within the two hundred and fifty billion limit that was set about this time last year, but he has more than achieved that goal. We have stayed well under the two -- well under two forty-nine billion. And why is that? That is because we managed to get pervasively, throughout the government, an attitude that we must discipline ourselves; we must be careful. And that attitude has prevailed.

We have a little sign up in my outer office. It's sort of a crumpled up, used dollar bill. And there's a statement under it that is kind of a pledge from the Treasury: "We spend this dollar like it's our own." And I think that is the attitude we need in government. I'm sure we have it. And as we have it, we'll be able to hold this spending under control.

Now, the President feels, and I agree with him, that we can do this job of balancing the budget in fiscal '74 without a tax increase. And it's not desirable at this time to have a tax increase. And I would give the following reasons. First, in terms of fiscal policy, a balanced budget is the right fiscal policy. The economy is cooling off a little from the very hectic pace of the fourth quarter and the first quarter. And we want it to cool off, but we don't want to overdo it. We want it to come out with a sort of a soft landing on a four percent, or so, real growth rate. That's the desirable objective that we're shooting for. Second, there is, of course, the question about whether or not a tax increase would represent a genuine fiscal restraint, or whether, by contrast, what you would get is kind of a fiscal version of Parkinson's Law that might be stated about as follows: that spending will rise to meet at least all the revenues available to be spent. And if that's true, and I think there's a lot of evidence that it's true, then a moderate size tax increase would not be fiscal discipline at all, but would be simply a way of increasing the overall size of government, which is a third reason why the President has opposed a tax increase at the present time.

And, finally, I think if the analysis is that what's needed is a tax increase to be effective immediately, then the prospects for getting that job done and getting it done with a neat, clean tax bill of some kind are minimal. It's a very complex subject. We've had a great deal of talk about tax reform. The administration has proposals up; they're proposals of a great variety of sorts in before Ways and Means right now. And it's going to be quite a job in sorting all that out. So it is not a subject that right now lends itself to quick action.

So for all those reasons, we don't think the tax increase route is the right route. Furthermore, we think the job can be done on the spending side and we can achieve a balanced budget in fiscal '74, and that that is a principal weapon in the fight against inflation.

Now, second, what do we need to do? Well, I think we need to examine our policies throughout the government, as well as encouraging private industry to do the same, all our policies that have to do with production. How can we increase the supplies of the things where prices are going up? That is the fundamental way in which we'll affect indvidual markets. And of course in the field of food, which is the biggest element in terms of segments of the economy, the biggest element in our inflation picture, tremendous efforts have been made to increase supplies. Great amounts

255

of new acreage have been released, and the Secretary announced last week that, as far as the next crop year is concerned, [it] is absolutely all-out. Right? What's your phrase? You're going to plow up the fence posts, or plow up the fence holes, or whatever it is. Rows! Leave the poles, but plow -- how do you plow up the rows without hitting the fences? Could you tell me that? I always wondered about that. But any way, the point is this is the time for all-out production. And I might say, beyond that, looking to the future -- and this is why, at least to me, there's so much distressing about a lot of the discussion about a farm bill -- as we look out into the future, this is the time when it seems as though we can re-arrange our basic policies here. And we have a chance for our farmers, who are probably the hardest working segment of our population -- we have the chance for our farmers to have a high income built on reasonable prices and lots of output, instead of the other way around where you get high prices through restricting output. So we have an opportunity for a real re-arrangement of our agricultural policy in the interest of increasing supply, not only for our use here at home, but for meeting demands all around the world. And that is not only good for the rest of the world, but it's very good for us, because if we're going to import all these things that we want to import, there's got to be something we sell to pay for it. And agriculture is the best thing we've got going for us when it comes to our exports.

So that's one kind of thing that it seems to me important to do in increasing supplies. We have -- beyond that, we have very large stockpiles of many commodities, most of which can't be sold without congressional action. So we have a bill in before the Congress to allow us to dispose of stockpiles where they're declared nonstrategic. They're not necessary for national defense. So when we're holding a big stockpile of something the price of which is going up, let's sell it, and let's get the congressional authority to do that. That increases supply.

Now, we have a lot of negatives. And I think everyone has had little demonstrations here lately which you see more clearly when the economy is operating at full capacity in a kind of a taut way in the markets. You see this basic lesson that if costs exceed prices, it's not very good for production. And that line about 'you make it up on volume' doesn't play anywhere any more. So we see the baby chick business that's gotten a lot of publicity, that illustrates that point. And as far as I'm concerned, I've learned a new word that I'm sure everyone here knows. But to me it was a new word I learned during the freeze called the "piggy sow." And when the proportion of piggy sows being slaughtered rises rapidly, you know that's bad news for the future. And the reason has to do with this cost-price relationship. So let's be careful that in operating our control system or in looking at our basic policies, we don't violate fundamental laws that have to do with encouraging production. That's got to be very prominent in all of our thinking.

256

Or to look at another segment of our society, we see very large increases in investment in new plant and equipment. And to some extent, it represents a problem, because it's a surging sector of the economy. And there's a temptation to say, "Well, because it's surging, let's see if we can't undercut it a little bit." But if you think about that for a minute, that is the future. That is the way we're going to increase supply. That is the way we're going to get our costs down. That is the way we're going to be competitive in the world. That is the way we're going to maintain the pace of the rising standard of living for all Americans. So let's think twice before we do things that, fundamentally, are the ways in which we're going to increase supply. In fact, let's turn it the other way. Let's do more to do the things that will increase supply.

Well, I could go through a long list. We have the anomalous fact that, due to governmental regulation, an awful lot of our trucks when they go from "A" to "B," when they come back to "A" again they're not allowed to carry anything in the truck. What sense does that make? In a day when we're worried about costs of agricultural products, in a day when we're worried about the use of gasoline, in a day when we're worried about the environmental considerations from what carriers put out, what sense does that make to require empty backhauls? It's ridiculous. But to get something done about it is one of the hardest things you can imagine. And, of course, I should say it isn't always government that is the culprit. Government is only doing something because there are pressures in the society for having government do it. But it's bad for us. So let us examine the point and see if we can't do something about it.

So we could just go through example after example after example of things that we can do that will increase supply. So that is the second thing we need to keep our eye on in dealing with the inflation problem.

Now, third, is the area of our connections with the world economy. And of course we see more clearly in the last six months or so the very strong way in which the U. S. is a part and parcel of the world economy. I think we have all said this. In our rhetoric we have said that in the past. But we have never seen it demonstrated so strongly, that when all the economies of the world are rising, and, in world markets, commodities that we both export and import are rising rapidly in price, that is going to impact our economy. And we have no way around it. And at the same time, it has its problems for us; it also has its advantages for us. And let me just comment briefly on that.

I think it is interesting to see the reflections that people have when they see inflation in their own country and they examine some of their international economic policies. And I thought it was interesting that Canada, for instance, has lowered a lot of its trade -- a lot of its tariffs in the budget that was sent up last January, not because they necessarily wanted to treat their trading partners better, but because they wanted to lower prices in Canada. Why charge yourself something extra on something that's in short supply? Australia's just done the same thing. Why not us? It makes sense. I mean we're trying to import beef. Why pay a tariff on it? We're trying to import lumber. Why pay a tariff on it? And so on.

And so the President has asked for authority from the Congress, in cases where we have a tariff on some good that's in short supply with rising prices here at home, to have authority, at least temporarily, to reduce that tariff. It's a sensible sort of thing to do in recognizing our interconnections with the world economy and, in this case, taking advantage of the discipline that the world economy can give in our own price structure.

Now, of course, we have worked to get a more flexible monetary system and to get the dollar more realistically valued. All through the World War II period, everybody devalued against the dollar. On the whole, the trading arrangements that built up were done against the background of the U. S. could do no wrong. We just were bound to be the strongest and would never have a problem. And the result of all that was, I think, that in the international economic sphere things got structured in such a way that they weren't to our advantage. Well over the last two years, we have changed that, and the dollar now is very realistically valued and probably at this point is undervalued. I don't think there's any doubt about that. At any rate, from the standpoint of the competitiveness of our goods in world markets, we're very competitive now. And I think that the time is right. And I know the President will be working on this, as you have been here and as in the Commerce Department, on a real move on the export front. But we have a more realistic position in world markets, and we have the prospect of a more flexible system that will help keep it that way.

So that is an element in the picture.

Now, let me come to a subject that is very much in your bailiwick and very sensitive. And that is the problem of export controls. And here the President has stated very definitely our policy is against export controls. We don't think that they're a good idea. We have export controls on soybeans right now and on derivative, related products. And I must say it is impressive the substitutability of products in the sense in which you say, if you're going to do something on product "A," then that implies that you do something about a whole range of substitutable products. So it isn't a little thing to play around with. And we felt that was necessary, the secretary of Agriculture did, to put those export controls on for this year's crop, even though it was done with great reluctance. But our policy basically is against that and to resist that if we possibly can.

And the reason why is simple. It is essentially a circular proposition. That is, if we have a good that we export in large proportion and the rest of the world wants to buy it, and we control that export, and, if that spreads, then, obviously, people around the world say, "Well, I get this dollar in exchange for the things that I import to the U. S., what can I spend it on?" And we have always said it is convertible into the goods and services in the largest and most diverse market in the world. And that's a pretty good argument. But if you won't sell the things they want most, you are undercutting that argument. And so the value of the dollar naturally declines, and we have to pay more for these many things that we import.

And so from the standpoint of our consumers, the consumer winds up paying that price. He may not pay it for product "A"; he may pay it over here for product "Z." But there's a connection. In other words, we just go right around in this circle and we meet ourselves. So it isn't a desirable policy from our point of view or anybody else's point of view, although, if the worst comes to the worst, we'll always have to look to our own home market. But the general, basic philosophy of our position is to oppose export controls and maintain our connection to the world economy in the strongest way that we can.

Now, finally, let me come to the internal economic stabilization effort[s], as they have been announced with the label of Phase IV most recently. Here we have a program that is tough as judged by the internal structure of the program, the definition, basically, of the kind of costs that can be passed through in the form of prices. So it is a tough program from the standpoint of its internal structure.

Second, it is a program that, while it is somewhat complicated as a result of this, nevertheless I think is made fundamentally more workable by it; a program that, on the one hand, is phased in in different stages for different products in order to spread the bulge of the cost increases that in the pipeline so they don't all come and hit us at once and give a little chance to assimilate these costs; and, on the other hand, complicated and selective in the sense that where different industries seem to be genuinely different in the nature of the problem that we face, we have tried to design regulations that suit themselves to that industry. The food industry, of course, is one. The petroleum industry is another. We've had a separate approach to health for some time; the same for construction, and so on. And where there are special problems, we've tried to have a program that's designed to meet those special problems. And in the process of being selective, of course, also to say, fundamentally and for reasons that I was suggesting in the section of my remarks where I was talking about the importance of increasing supply -- fundamentally to select ourselves out, to work our way out and to feel our way out of wage and price controls, and to do this by identifying industries or places where the inflation problem doesn't seem to be particularly acute and to exempt those places from the controls, partly in the interests of getting out of the controls, partly in the interests of not placing unnecessary burdens on a section of the economy, and partly in the interests of saying 'we have only so much in the way of administrative effort that can be put into this, let us put that administrative effort in where it is most needed.' And so where we find special problems of encouraging supply in the long run -- and long-term coal contracts have been used as an illustration of that -- or where we find that the supply and demand conditions are controlling price adequately -- and interestingly enough, lumber right now seems to be a good example of that -- we are just exempting.

So it is tough; it spreads the bulge; it is selective in these senses that I have mentioned, and is designed to give us some grip on the inflation problem, to use the notion of controls in the most effective way we can, but, in the meantime, to work on the budget and the monetary policy, to work on the problem of increasing supply, to maintain our connections with the world economy and to get the benefits from doing that, so that as time passes we can get ourselves back into a situation where we have a free economy, free agriculture. And I might say on free agriculture, I notice agriculture comes in very hard to see that you don't hold the prices down. And we get a lot of wailing against government when you're holding prices down. On the other hand, I hadn't noticed so much complaint when government was holding the prices up. And I say that as only typical of everybody. Everybody likes to have it both ways. But we have got to get ourselves into a frame of mind where we're willing to take it both ways in the interests of the kind of economy that we really believe in.

So that is an outline of our program, as far as the fight on inflation is concerned. It's certainly the number one problem we have in the economy. Otherwise, the economy looks great. We've got three million more jobs than we did a year ago. We have plant and equipment spending rising, and so on and so on and so on. There's a lot of good in the situation.

Now let me come directly to you and fit you right into this picture, as I see it, 'cause, as I think is clear, food prices and food supply are really at the heart of the inflation problem as it is, as it is affecting us right now. And this is an area where the notion of the U. S. and the world economy is perhaps the strongest of any sector of our economy, given the very high proportion of our agricultural production that we export.

Now, our efforts to deal with the problem are heavily dependent on the accuracy of our estimates of what is going on. It is not sufficient at all to have a good estimate of how much production there is going to be in the U. S. and how much demand there is going to be in the U. S., difficult as those things are to estimate and knowing all of those uncertainties. That is a problem that we work on, the Agriculture Department works on, and

259

it's a very important part of the information needed. But it is by no means sufficient. It is obviously critical to have the best estimates we can of what is the likely supply situation in other parts of the world and what is the likely amount to be consumed in other parts of the world. We have to put this -- and I'm saying only the simplest things that I'm sure everybody here knows better than I. But it is sort of the most elemental thing to have this kind of worldwide information in our hands so that we can really understand the situation. And the better we can understand it, the more intelligently can we operate our policies.

And as I have seen a description of this group as a group of people whose stations are literally all over the world and whose expertise is directly on this point, it seems to me that we must look to you to provide us with a continuing flow of what right at this moment is perhaps the most essential information input, in terms of what is going on, that we must have in dealing with the overall problem of inflation. So I'm pleased to have had an opportunity to make this pitch to you about the central role that what you can do for us will play in the work that lies ahead of us. And I know that we can count on you to give us a continuing flow of the most accurate information that you can get, and not only to give us the information that's there, but to be candid in describing the range of error that's implicit in it, so that we know that, well, here's your best estimate and you're quite sure that's right, or here's your best estimate, but really there are tremendous uncertainties, and it might be as low as this and it might be as high as that, or whatever, so that we understand the quality of the information, as well as the absolute number that may be involved.

So, Mr. Secretary, I apparceciate the chance to come over here from the Treasury and talk to you. I never thought when I was nominated for secretary of the Treasury that so much of my concern would wind up being about agriculture. But, you know, you always come to the most important place sooner or later, and food has got to be it right now.

Thank you very much.

[Applause.]

SECRETARY BUTZ: Well, thank you very much, Secretary George Shultz. I tried to tell you years ago agriculture was basic. I'm glad you got the lesson. The Secretary was running a bit behind, and he's got -- he said this is the second of four speeches he's giving today. And I said whenever I was faced with that situation, I gave the same speech four times. He said, "Well, that's what I meant."

[Laughter.]

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

260

EMBARGOED FOR RELEASE UNTIL
10:00 A.M., EDT, JULY 27, 1973

TESTIMONY BY THE HONORABLE WILLIAM E. SIMON
DEPUTY SECRETARY OF THE TREASURY
BEFORE THE
SENATE ANTITRUST AND MONOPOLY SUBCOMMITTEE
FRIDAY, JULY 27, 1973

Mr. Chairman and Members of the Committee:

I am delighted to appear before you today to discuss competition in the oil industry and, in particular, the supply and distribution of petroleum products. I plan to discuss the present voluntary allocation program and possible changes in it; the recent Federal Trade Commission staff report on the structure of the industry; and, finally, the problems of home heating oil which we will face this winter.

The Growth of Demand for Energy

The first thing to understand is that the demand for energy has been increasing continually while supply has not. With six percent of the world's population, we are consuming 33 percent of the world's energy. Furthermore, the demand for energy in this country is growing at an annual rate of about four percent and, by 1990, our energy needs will be double those of 1970. Much of this increase in demand will be reflected in an increase in the demand for oil, which has grown, in part, because there has been a shift away from coal to oil and, in part, because of an inability to obtain natural gas, an alternative to oil. Domestic demand for oil has increased from 15.1 million barrels a day in 1971 to 17.3 million this year and will increase to about 21 million in 1975 and to approximately 25 million in 1980.

The demand for gasoline in the United States has also been growing faster in the past several years than at any other time in recent history. Since 1968, gasoline demand has risen at an annual rate of about five percent. During the past two years the rate of increase has been about seven percent per year. Part of this rise in demand can be explained by growth in the population, growth in the economy, and the increasing number of cars on the road. There are over 96 million cars in use in the United States today, a gain over last year of more than four percent.

Demand has also risen significantly because of the many power-using devices added to cars. These include automatic transmissions, air conditioning, various safety features, and the changes made in automobiles since 1970 in compliance with EPA regulations issued under the mandate of the Clean Air Act. Producers' compliance with these regulations has led to substantially reduced engine efficiency. As more vehicles come on the road equipped with safety, emission control, and physical comfort devices, average mileage per gallon will decrease further. An automobile that once got 14 miles per gallon, now gets eight or nine miles.

Because new automobiles are not getting the gasoline mileage obtained by their counterparts five and ten years ago, and because we are driving more, gasoline consumption has risen. We are using 300,000 barrels per day more gasoline this year than last year.

Failure to Build Refineries

While gasoline demand has been growing at about seven percent per year, the volume of crude oil processed by refiners has risen only three percent per year. We are now extremely short of refinery capacity and, at the time of the President's Energy Message, which announced the new oil import program, no new refineries were under construction. Furthermore, expansion of existing refineries had ceased. Growth in the capacity of the industry had come to an end because the industry found that it was more profitable to invest abroad than in the United States. There were a number of reasons for this:

(1) Environmental restrictions and local opposition have made it increasingly difficult to find acceptable sites for new refineries in this country. Because of resistance

to refinery siting, it may take three years to obtain site approvals today, in addition to the three years required for construction. Yet, modern refineries can be designed so that they do not significantly pollute the environment.

(2) U. S. oil import restrictions, in the past, created uncertainty as to whether new domestic refineries could obtain sufficient imported supplies of crude oil. As long as the government set import quotas on a year-to-year and, in some cases, on a month-to-month basis, no company was assured of the stability of supply necessary to encourage domestic refinery construction. This impediment ended on April 18 when we terminated volumetric quotas on oil imports.

(3) The tax and other economic benefits available to refiners in the Caribbean and in Canada have been more lucrative than similar provisions available in the United States. Deepwater ports in the Caribbean and Canada have also permitted savings in the use of very large crude carriers.

For these and other reasons, U. S. refinery construction has been standing still while U. S. demand for refinery products has been increasing. Our growing lack of refined products was driven home to the public late in 1972 with shortages of distillates and other heating fuels in various parts of the country. Refineries had to increase their percentage of distillate production and correspondingly, reduce gasoline production. Now we are experiencing gasoline shortages in various parts of the country despite the fact that gasoline production this year is higher than it has ever been.

The Problems of the Independent Oil Companies

With this discussion of demand and supply as background, I would like to turn now to the problems faced by the independent segment of the petroleum industry. The independent refiners and marketers, especially, are confronted by related but distinct problems. The refiners face crude oil shortages; the marketers, gasoline and fuel oil shortages.

To understand how these problems developed, it is important to realize that, until the early 1970's, we had surplus crude oil capacity in the United States. This enabled independent refiners to buy crude oil and build refineries to supply, among others, independent jobbers, marketers, and other wholesale customers. There was also a surplus of gasoline and other products being produced by the major oil companies' refineries. Independent marketers took advantage of the surplus and opened thousands of gasoline stations to sell gasoline purchased in the spot market. Because of bulk purchases on the margin and efficient servicing of consumers, these marketers were able to sell gasoline for a few cents a gallon less than the major oil companies. These independents have had a healthy influence on the petroleum industry by giving consumers a greater choice between price and service. They have made it possible for consumers to buy gasoline at lower prices.

The gasoline shortage has hit the independents hardest. In the first place, independent refineries can no longer get adequate supplies of crude oil. They used to obtain domestic crude oil by exchanging their import licenses with the major oil companies. The major companies used the import licenses to import cheaper foreign crude for their own use, while providing the independent refiners with domestic crude oil. In addition, the so-called "sliding scale" method of allocating import licenses under the old system gave smaller refineries more than a proportionate share of the licenses.

All this has changed during the last two years. Quoted prices of foreign crude oil are now equal to or higher than prices of American crude sold in the same markets. There is a worldwide shortage of low-sulfur or "sweet" crude. As a result, major oil companies have had no economic incentive to trade their domestic sweet crude production for imported crude obtained by means of the independents' import tickets. Moreover, it is estimated that only 40 percent of the U. S. refineries are equipped to handle high sulfur crude or to convert high-sulfur residual oil to low-sulfur residual oil. Further, because of local air quality standards, some plants that are designed for refining high-sulfur crude are compelled

263

to use low-sulfur crude. The result is that the independent refineries, particularly those in the midcontinent area, have not been able to get the sweet crude they need and are operating at less than full capacity.

Independent gasoline marketers are also in a difficult position. The wholesale market for gasoline has become very tight and many of the independents find it impossible to purchase gasoline wholesale. Hundreds of independent gasoline stations across the country have closed down. Those that can obtain gasoline abroad, find it available only at much higher prices. This hurts them competitively because their main selling point with the public has been their ability to under price the major oil companies.

In the face of these problems, we have gone to great lengths to help protect the independents. Our basic objective has been to balance the need to preserve the independent segment of the petroleum industry with the desire to create a vigorous domestic industry through incentives for construction of new refineries in the United States and for exploration for new reserves of crude oil.

In the past, the Oil Import Appeals Board (OIAB) would not distribute import licenses in cases of hardship until September of each year. These licenses were, by and large, distributed to the independent refiners and marketers. Early this year, the OIAB began to allocate tickets immediately upon application. It had soon disbursed its entire 1973 allocation. Then, on March 23, 1973, the President issued a Proclamation granting unlimited allocations to the Oil Import Appeals Board in an effort to make more crude oil and product available to both the independents and the Nation. Finally, on April 18, in another Proclamation, the President removed volumetric controls altogether.

The government has also been allocating its "royalty oil" to certain independent refineries in need. Under the terms of relatively recent lease sales, the government can collect some of its royalties in cash or in a share of the oil produced on leased lands. In choosing the latter course, it

244

has diverted crude oil from the major to the independent refineries.

The Interior Department estimates that the amount of royalty oil accruing from all federal lands is about 225,000 barrels a day. The Secretary of the Interior has decided to take as much of that royalty oil as possible in kind and to distribute it to independent refiners. Although the independent refiners are a small segment of the industry, their contribution is significant and the additional supplies of royalty oil are important to their survival.

The Voluntary Allocation Program

Despite this and other actions, however, we realized that immediate measures had to be taken to assure adequate supplies of crude oil and refined products to independent refiners and marketers. The Congress enacted the Economic Stabilization Act with a provision granting the Administration authority to allocate petroleum and petroleum products. In order to exercise this authority and adopt a mandatory allocation program, however, public hearings had to be held. The Administration felt that the American people could not wait that long. Therefore, it acted immediately and adopted the voluntary allocation program. This program relies on voluntary compliance with guidelines set by the government. Our purpose was to apportion, as evenly as possible, any curtailment of consumption that resulted from shortages of gasoline and distillates. At the same time, we adopted priorities for farming, food processing, other essential industries, and health and emergency services.

Compliance

We have found a widespread willingness on the part of the industry to participate in some form of allocation program. There are many companies that are genuinely trying to cooperate, although particular features of the program pose difficulties and, for this reason, different allocation schemes have been adopted. One measure of the degree of compliance by the industry is provided by a recent survey conducted by the National Federation of Independent Business. Of the 2,471 gasoline retailers replying, 2,091 indicated that their suppliers had complied with the guidelines.

However, the program is confronted with some legal and supply difficulties. Some companies report that they cannot fully comply with the guidelines because prior contractual arrangements legally commit them to provide fixed amounts of crude or product to certain customers. Others simply do not have enough crude or products to meet base period requirements.

Speed and Effectiveness of Assistance

The administration of the program is moving forward. Since it was announced on May 10, 1973, we have expanded the program's staff to over 80. In addition, several agencies of the government have been most helpful in responding to our needs, but their workloads limit the amount of assistance they can provide. We still have considerable staffing, space, and computer problems to resolve. However, we feel that these problems can be remedied in the very near future by further augmentation of our staff and by revising the allocation program's guidelines in ways that would limit the amount of workload.

Preparations For A Mandatory Program

At the same time that we put the voluntary program into place, we also began to prepare for a mandatory fuel allocation program to be adopted if necessary. The measures we have taken to this end include the publication in the Federal Register on May 21 of a notice of public hearings regarding allocation of crude oil and refinery products and the holding of hearings so that the public has an opportunity to express itself on how the program is working and modifications that must be made in it.

On June 11-14, 1973, we held public hearings to evaluate the operation of the program. Much has been learned from the administration of the program and from comments by those testifying.

We received oral or written testimony from over 100 witnesses, representing a broad cross-section of the industry, state and local government and consumer interests, as well as U. S. Senators and Representatives. We asked those appearing before us to address themselves to two basic issues:

First, based on the experience of the past weeks, how can the voluntary program be improved and made more workable?

Second, do we need a mandatory program, and if so, how should it be structured?

In general, we learned from these hearings that the voluntary allocation program was working well in some instances and working only partially in others. In some cases it was not working at all. Criticism ranged from insufficient voluntary compliance, to reports of businesses actually closing their doors because of no available supplies of gasoline or fuel oil. We learned that the voluntary program was working much better for refined products than for crude oil. Perhaps most important, we learned that we do need an improved allocation program, possibly with some mandatory features, in order to supply equitably the fuel needs of all segments of the industry. Interestingly, many major oil companies spoke out in favor of a mandatory program, in order to invoke <u>force majeure</u> clauses in their existing contracts, while some independents, particularly the branded jobbers, preferred to retain the existing voluntary program.

Many witnesses noted the need to have greater flexibility built into the program. Many wanted a more current base period,

266

while some wanted the government to allow companies to develop their own base periods and allocation programs subject to government approval. Several stressed that consideration should be given to persons who had supply contracts or were established customers. Others stressed that special consideration be given to persons who did not have contracts and were spot buyers. Many industry representatives and state and local officials emphasized the needs of particular segments of the country or economy and urged that the priority list be expanded to include these needs. Finally, many major oil companies noted that, although many of their sales were to dealers selling under their brand names, most of these dealers were actually local independent businessmen and, as such, should be given equal consideration with other independend marketers.

In light of these reactions, we have now reviewed a number of alternative allocation programs with John Love, the newly appointed Director of the President's Energy Policy Office. These options include:

(1) Retaining a voluntary allocation program with suggested revisions;

(2) Adopting a partially mandatory-partially voluntary program; or

(3) Adopting a fully mandatory program covering all segments of the industry.

No final decision has yet been made by the Administration as to which alternative should be adopted or whether the program should be mandatory or voluntary.

In considering a possible mandatory program, there are some general objectives that we would want to pursue:

(1) To the extent possible, the program should be self-administering, although all covered companies must be required to participate.

(2) To the extent possible, the program should not conflict with existing business practices or contractual arrangements.

(3) Separate programs should be developed for crude oil and for petroleum products and liquefied petroleum gases.

(4) There must be priority allocations to various end users of finished products and liquefied petroleum gases deemed to be essential to our Nation. Included among these priority users are independent marketers and distributors, as well as other wholesale customers, supplying priority customers unable to obtain the products they require through the regular allocation program.

(5) Further, any mandatory program must preempt various state and local allocation programs.

267

(6) Also, any mandatory program should allow force majeure provisions in contracts to become applicable, thus terminating, where necessary, existing contractual obligations.

(7) In addition, in no case should a supplier be forced to sell crude oil or product below cost, in this way avoiding a possible legal challenge that the program is confiscatory.

(8) Finally, there should be sanctions for those companies refusing to comply with the allocation program as well as incentives for those companies agreeing to comply with it.

The final decision on this program now rests with Governor Love.

The Federal Trade Commission Report

In your invitation for me to appear here today, I was asked to comment on the recent Federal Trade Commission Report on the relationship between the structure of the petroleum industry and its implications for current shortages.

I would like to note at the outset that I have not yet had time to analyze thoroughly this report. I have asked my staff to prepare an analysis of the report and if the

Chairman so desires, I will furnish this Committee with a copy of that analysis. Let me present, however, some initial comments.

In the first place, the report singles out eight major oil companies. There are, as you know, at least fifteen to twenty other very large oil companies with integrated operatons, in addition to numerous independents who are partially integrated.

Second, the report suggests that an alleged cause of the gasoline shortage is the fact that the major oil companies have not raised their gasoline prices sufficiently in an attempt to squeeze the independents' market share. The report notes that "in a normal competitive market a cure for shortage would be for prices to increase... But what has happened here is that the majors have used the shortage as an occasion to attempt to debilitate, if not eradicate the independent marketing sector. They are doing this not by lowering prices in those areas where they compete with independents but simply by not permitting their prices to rise." It is worth pointing out that what the major oil companies have been doing in regard to pricing of gasoline is simply following price control regulations. Generally speaking, the price controls during Phase II applied to major companies, but did not affect independents.

Few people realize that the freeze actually continued on major oil product prices from August 1971 through January 1973. During Phase II, the Price Commission allowed price increases for certain refinery products, but did not grant price increases for two important products -- Number 2 fuel oil and gasoline -- which together, accounted for over 70 percent of refinery output in this country. Under Phase III, only the prices of the 23 largest companies were directly controlled by the government. However, the effects of these controls were felt throughout the industry.

In short, the FTC is right that major oil companies did not raise their gasoline prices, but the obvious reasons for this was federal price controls rather than an anti-competitive motive.

The FTC's proposal to break up the integrated oil companies by divestiture of refining or producing operations from marketing gives me great concern because of its implications for domestic energy supply in the future.

Mr. Halverson of the Bureau of Competition has called for "significant divestiture" of refineries and pipelines in the anti-trust complaint against the eight major oil companies.

Anti-trust policy is a little out of my line, but I am most concerned about our Nation's petroleum needs and how best to get through the immediate situation facing us. One of the main problems today, as I have already pointed out, is a shortage of refinery capacity. And, I believe that this shortage could be made worse by divestiture.

In the first place, it costs a quarter of a billion dollars to build a modern refinery of the type that meets environmental standards, is efficient, can handle high sulfur crude oil, and will produce the products we need. We must build the equivalent of about 60 refineries in the next 12 years if we are going to keep up with projected demand for petroleum products. This will cost about $15 billion. Who has the ability to build these refineries? For the most part, the integrated oil companies.

269

Since our announcement of the new oil import program on April 18, 14 companies have, in fact, announced plans for refinery construction or expansion amounting to 2.5 million barrels per day of new capacity. None of these new plants are currently under construction. In most cases, the financing of these plants comes from internally generated funds of the major oil companies plus loans based on the assets, earnings, and crude oil sources of these companies. If a major suit were undertaken to separate these companies from their refineries, I have serious reservations about whether the capital could be attracted for expansion of the industry.

Moreover, the threat of a suit could delay the much needed construction of new capacity. We simply cannot wait years for the industry to expand its output.

Further, divestiture is a two-edged sword. Several independent marketers have announced plans to build or participate in the building of new refineries. This is a major step forward, not only for the independents, but for the Nation. Yet, if we force divestiture we shall also prevent the building of these refineries.

Heating Oil Supplies

While gasoline has been uppermost in the minds of our Nation this summer, we have also been concerned about assuring adequate supplies of heating oil for next winter. Total distillate demand is now running about 6 percent more this year than last year. The most important reason for this is, undoubtedly, the increased use of Number 2 fuel oil by utilities in order to meet higher environmental standards. As of July 20, fuel stocks held by refineries were about 9 million barrels more than a year ago. However, inventories were abnormally low in 1972. In 1971, distillate fuel stocks were about 10 percent above current levels.

As I have indicated, the major reason there has been such a substantial increase in the demand for distillate fuel oil is air quality standards. Many utilities are mixing Number 2 oil with residual oil. Some are actually switching to Number 2 fuel oil altogether in an effort to meet these standards. This is imposing an enormous strain on our productive capability and is making it difficult, especially for our independent marketers of fuel oil, to obtain needed supplies for their customers.

270

I am concerned about the situation in certain areas such as New England. The New England Fuel Institute reports that as of the first of July of last year seven independent terminal operators had 2,410,000 barrels of Number 2 fuel oil in storage. As of the first of July of this year, however, they had only 355,000 barrels in storage. These terminal operators report that by September 30th of this year they must build up their stocks to 12 million barrels if they are to avoid a fuel oil crisis in New England next winter.

I would point out that this situation could have been avoided had various communities in New England allowed the construction of several proposed new refineries during the past five years. These refineries would have been built, incidentally, by independent marketers and, had they been built, not only would New England's fuel oil shortage be largely resolved, but also the difficulties faced by the independent marketers.

Nevertheless, there are steps that have been taken to help resolve the problem this winter.

1. We have already opened up oil imports so that unlimited amounts of fuel oil can be brought in. As a result, imports have totalled about four times what they were in the first six months of last year. But this is not enough. It now appears that in order to avoid a shortage, imports will have to rise to a level of 400,000 to 500,000 barrels a day from now until well into the winter

heating season. I see no evidence of this increase and I urge petroleum industry leaders to concentrate on methods for increasing the importation of fuel oil immediately. On our part, we will provide all the assistance that we can.

2. We are, as I have said, working on a more effective allocation program which will help to distribute more evenly supplies of fuel oil throughout the country. It is important to realize, however, that this program will not create any new oil and cannot correct an absolute shortage.

3. Most industry leaders today are calling for a temporary relaxation in environmental standards that are requiring the burning of fuel oil by electric utilities and low sulfur fuel oil in home and industrial uses in areas without serious air pollution problems. If sulphur standards for residual oil in major cities on the East Coast were changed from existing levels of 0.2 or 0.3 percent to 1.0, or even 0.5 percent, we would release a very significant quantity of home heating oil. This change can only be made by EPA and the state governors. However, it is a change which, I believe, is urgently needed and needed now if we are to make plans for importing the needed fuel oil.

271

License Fee Free Imports

Some have criticized the government's establishment of a 50,000 barrel per day license fee free allowance for Number 2 fuel oil imports into District I. They claim that it is inadequate to meet District I's fuel import needs. I do not agree with this position.

As you know, on April 18, when the President eliminated volumetric quotas on petroleum imports, he also abolished all tariffs. In their place, the President established a system of license fees. Under the new system, all holders of import allocations in the past were granted, for a time, license fee-exempt tickets in an amount equal to existing allocations. For District I there had been a quota of 50,000 barrels per day and this quota was, therefore, converted, along with all other quotas, into a license fee-free allocation of 50,000 barrels per day. We have made no exceptions for three reasons:

1. We feel very strongly that we had to stop the practice of granting individual benefits to individual sections of the country or industry. This practice led to a patchwork, stop-and-go oil import program and was one of the reasons why the program broke down.

2. Creating new exceptions for a particular region of the country or a particular segment of the industry

could have jeopardized the legal basis of the new oil import program.

3. Further, as I mentioned earlier, we converted the OIAB into a workable mechanism for providing license fee-exempt imports to independent segments of the industry experiencing hardship. Since May 1, 1973, the Board has already issued tickets for District I allowing more than 3.2 million barrels of fee-exempt Number 2 fuel oil imports. The Board will undoubtedly issue more tickets when needed.

Conclusion

In closing I would say that we have tried to advance energy policies that are responsive to our Nation's needs. On April 18, 1973, the President presented a broad and comprehensive energy message which is a blueprint for action that must be taken. The basic goal of the policies suggested in the message is to assure adequat supplies of energy in the short run, while also reducing our dependence upon foreign supplies in the long run by fostering a vigorous domestic energy industry.

Further, in July, the President announced a $10 billion energy research and development program. This program should speed up the development of clean energy products, including synthetic oil and gas from coal, stack scrubbers which will permit us to use more coal without polluting the atmosphere, nuclear power, and research into other sources of energy such as geothermal and solar power, and oil shale. This program will start to produce results in the early 1980s, as these new energy sources begin to supply a significant part of our energy needs.

We have also initiated a program to triple the acreage on the Outer Continental Shelf made available for oil and gas exploration. We have asked the Congress for authority to build the badly needed Alaska pipeline which, when completed, will result in more than two million barrels of oil a day by 1980. This is equal to one-third of current oil imports. Moreover, construction of the Alaskan pipeline will encourage additional development of Alaskan oil fields. Projections indicate that the North Slope has potential reserves of as much as 80 billion barrels. Eventually, we could achieve an Alaska production of between five and six million barrels a day.

Finally, the President has called on all consumers -- the Government, industry and the general public -- to conserve energy. He has established an Office of Energy Conservation in the Department of the Interior to spearhead this program. The Federal Government is taking the lead by an across-the-board seven percent cut-back in its energy utilization. Effective conservation measures by both government and the public are essential.

In short, we are undertaking long-term measures which, I think, will assure an adequate supply of oil for the Nation and, because of this, an equitable allocation of crude oil and products. It is in this effort that we really need the assistance of Congress.

I am basically opposed, as I am sure are most of the Members of this Committee, to the needless injection of government regulation and control into any industry, particularly where there is every evidence of intense and healthy competition. I do not want to take any step which would discourage private initiative. At the same time, we are in a situation in which we must make decisions on priorities. We cannot afford to let crops go unplanted or unharvested for lack of diesel fuel for our tractors. We cannot let our vital industries close down. We cannot endanger public health or safety. And, finally, we should not let the independent segment of the oil industry, which provides competition in the marketplace, be forced to shut down.

Thank you.

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

273

ATTENTION: FINANCIAL EDITOR July 30, 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 May 3, 1973, and the other series to be dated August 2, 1973, which were invited on July 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 $1,700,000,000, or thereabouts, of 182-day bills. The details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	91-day Treasury bills maturing November 1, 1973		182-day Treasury bills maturing January 31, 1974	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	97.915	8.248%	95.732	8.442%
Low	97.888	8.355%	95.708	8.490%
Average	97.897	8.320% 1/	95.715	8.476% 1/

53% of the amount of 91-day bills bid for at the low price was accepted
10% 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	$ 32,180,000	$ 22,180,000	$ 21,100,000	$ 10,950,000
New York	3,093,845,000	2,016,445,000	2,688,270,000	1,344,175,000
Philadelphia	43,810,000	23,785,000	13,960,000	11,505,000
Cleveland	36,110,000	35,960,000	71,460,000	30,805,000
Richmond	32,055,000	30,055,000	19,700,000	19,690,000
Atlanta	15,670,000	15,670,000	19,775,000	17,515,000
Chicago	276,240,000	166,890,000	278,740,000	152,995,000
St. Louis	52,725,000	33,755,000	67,630,000	26,030,000
Minneapolis	21,075,000	8,135,000	21,805,000	3,805,000
Kansas City	30,970,000	27,970,000	34,120,000	24,905,000
Dallas	35,370,000	23,400,000	33,015,000	12,515,000
San Francisco	125,495,000	96,025,000	116,140,000	45,340,000
TOTALS	$3,795,545,000	$2,500,270,000 a/	$3,385,715,000	$1,700,230,000 b/

a/ Includes $308,210,000 noncompetitive tenders accepted at the average price of 97.897
b/ Includes $233,005,000 noncompetitive tenders accepted at the average price of 95.715
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 8.62% for the 91-day bills, and 8.98% for the 182-day bills.

274

91 182

Last week 8.114 8.272

To-day 8.320 8.476*

*highest rate ever for any bill issue.

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

275

FOR IMMEDIATE RELEASE July 31, 1973

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $4,300,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing August 9, 1973, in the amount of $4,305,425,000 as follows:

91-day bills (to maturity date) to be issued August 9, 1973, in the amount of $2,500,000,000, or thereabouts, representing an additional amount of bills dated May 10, 1973, and to mature November 8, 1973 (CUSIP No. 912793 SC1) originally issued in the amount of $ 1,801,695,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,800,000,000, or thereabouts, to be dated August 9, 1973, and to mature February 7, 1974 (CUSIP No. 912793 SX5).

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, August 6, 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 August 9, 1973, in cash or other immediately available funds or in a like face amount of Treasury bills maturing August 9, 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

276

FOR RELEASE 6:30 P.M. July 31, 1973

RESULTS OF TREASURY NOTE AUCTION

The Treasury has accepted $2.0 billion of the $2.1 billion of tenders received from the public for the 4-year 7-3/4% notes auctioned today. The range of accepted competitive bids was as follows:

	Price	Approximate Yield
High	99.31 1/	7.95%
Low	99.01	8.04%
Average	99.07	8.03%

1/ Excepting 15 tenders totaling $2,627,000

The $2.0 billion of accepted tenders includes 75% of the amount of notes bid for at the low price, and $0.6 billion of noncompetitive tenders accepted at the average price.

In addition, $0.6 billion of the notes were allotted to Federal Reserve Banks and Government accounts at the average price, in exchange for securities maturing August 15.

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

277

FOR IMMEDIATE RELEASE August 1, 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 determination of sales at less than fair value. These decisions will appear in the Federal Register of August 2, 1973.

In the first case, Assistant Secretary Morgan announced that the Treasury is withholding appraisement on primary lead metal from Australia. This lead metal is used in the production of storage batteries, pigments and chemicals, including gasoline additives. 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 year beginning May 1972, imports of primary lead metal from Australia totaled approximately $11 million.

In the second case, the Treasury is withholding appraisement on racing plates (aluminum horseshoes) from Canada. 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

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consider whether an American industry was being injured. During the period of January 1972 through March 1973, imports of these racing plates from Canada totaled approximately $140,000.

In the third case, the Department announced that polychloroprene rubber from Japan is being, or is likely to be, sold at less than fair value within the meaning of the Antidumping Act. This rubber is an oil resistant synthetic rubber particularly suitable for the manufacture of chemical equipment because of its high resistance to chemical action. 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 polychloroprene rubber which have not been appraised and on which dumping margins exist. A notice of "Withholding of Appraisement" was issued on June 14, 1973, which stated that there was reasonable cause to believe or suspect that there were sales at less than fair value. During calendar year 1972, imports of polychloroprene rubber from Japan were valued at approximately $8 million.

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

278

FOR RELEASE ON DELIVERY

STATEMENT OF THE HONORABLE GEORGE P. SHULTZ
SECRETARY OF THE TREASURY
BEFORE THE JOINT ECONOMIC COMMITTEE
THURSDAY, AUGUST 2, 1973
10:00 A.M.,EDT

Mr. Chairman and Members of the Joint Economic Committee:

It is a pleasure to be here today to participate in your mid-year review of the economy. I recognize that the members of the Council of Economic Advisers participated in an extensive and detailed review with you here yesterday, so I shall limit my opening remarks to a few basic points.

In the first half of the year, the economy moved very rapidly toward full employment of its manpower and productive facilities. The pace of domestic economic expansion exceeded expectations and there were unusually large gains in production and employment.

Some other developments were far less welcome. The dollar declined in value both in terms of foreign currencies and in terms of purchasing power for U. S. goods and services. It was necessary to resort again to a temporary freeze on domestic prices. These developments testify to the need for policies that will guide the economy on to a much less inflationary path of expansion.

There is no mystery as to the correct direction for policies during such a period of intense inflationary pressure. Fiscal and monetary policies must exert a restraining influence. No wage-price control program, however well designed, can achieve its objectives if total spending is pressing hard against productive capacity. In the present situation, there can be no ducking the need for restraint in fiscal and monetary policies if more serious inflationary risks are to be avoided.

It is clear that continued control of Federal spending takes on a new urgency. As I stressed in my appearance before your Committee earlier this year, it is critical that the Congress and the Executive Branch cooperate closely in this important effort.

This Committee was instrumental in the successful efforts to hold Federal spending below $250 billion during fiscal year 1973. Certainly there have been many differences between the Congress and the Administration over specific Federal program cutbacks and spending reductions, but the

279

important point is that our spending goal was achieved.

Together, we now have an even more challenging problem. Inflation has emerged as our Number One economic problem and we must insure that our financial policies are adequately combatting rising prices. Phase IV of the Economic Stabilization Program can help to moderate inflation. The main weapon against inflation, however, remains our financial policies, supplemented by special measures to encourage increased supplies of goods and services.

I would like to emphasize our judgment that fiscal restraint is imperative, and the operational necessity for exerting that restraint on expenditures. We have estimated that fiscal 1974 revenues will approximate the outlay level proposed by the President last January. With the help of the Congress, expenditures can be held to that level, and we can then look forward to a balanced budget. This budget will make available an additional $20 billion for Federal spending over last year's levels, but it will still require a major effort by both the Congress and the Administration to live within that spending total.

Nonetheless, such restraint must be exercised if we are to avoid an unacceptable rate of inflation or higher taxes -- or both.

The rate of advance in real output during the first half of the year was impressive. However, price performance during the first half of the year was most unsatisfactory. For example, the GNP deflator rose at nearly a 6-1/2% annual rate in contrast to about a 3% annual rate in the last half of 1972. Consumer prices rose at an 8% annual rate in contrast to less than a 4% annual rate in the last half of 1972. Rates of advance in certain components of the wholesale price index, especially for agricultural products and other raw materials, were extremely rapid in the first half of the year.

A number of factors combined to trigger this burst of inflation. They include the pressure of rising world-wide demand for basic materials, crop failures abroad, bad weather at home, and repeated threats of price freezes and rollbacks.

By late spring and early summer, it became clear that further policy actions would be needed to contain inflation. As you know, President Nixon announced on June 13 the re-imposition of a temporary price freeze of up to 60 days'

2-80

duration. Subsequently, on July 18, we announced the Phase IV controls program which will take effect in stages.

Phase IV is a tough program. It is designed to spread the inevitable bulge of post-freeze price increases over a period of some months and to minimize the impact of inflationary pressures thereafter. The program is designed to fit the special circumstances of certain industries, and some industries will be exempted from price controls based on their own favorable pricing track record.

A wide range of important actions have been taken to increase agricultural supplies and will be yielding their benefits later this year and next. In all the circumstances, wage pressures have been moderate and can continue to be if price rises are restrained. Given the essential support of restrictive fiscal and monetary policies, the economy will work its way through to much lower rates of inflation.

Since I appeared before you in February, international payments trends have moved toward equilibrium; interim arrangements for exchange market operations have been established; and important steps taken toward international economic reform.

The exchange rate changes over the past two years have laid the foundation for restoring international, and specifically, U. S. balance of payments equilibrium. That foundation would be undermined if recent rates of inflation were allowed to continue. I am confident we can keep that from happening.

Our trade accounts have improved more than might have been expected in a time of rapid growth in this country. Our trade deficit, which was nearly $7 billion in 1972, was only $1-1/4 billion in the first half of 1973. The large expansion of agricultural exports has been the most important factor improving our trade balance. Agricultural exports have probably reached a peak. But they will remain at a high level while our industrial trade balance improves.

After some turmoil in the foreign exchange markets in February and early March, members of the Group of Ten and the European Community agreed on interim monetary arrangements until an improved payments equilibrium could be achieved and monetary reform negotiations completed. These interim arrangements reflect recognition of the unusual strains and speculative forces during this period of basic adjustment. Rather than a rigid defense of fixed parities, they permit elasticity in exchange rates in response to market forces.

281

Since that time the currencies of the European Community which are jointly floating have appreciated significantly in relation to the dollar. Indeed, this movement has extended beyond the changes that we and others have felt is necessary to meet the requirements of longer term equilibrium. At the same time the dollar has remained quite stable in relation to the currencies of Canada, Japan, the developing countries, the United Kingdom, and Italy -- countries which account in total for three-quarters of our trade. We and others are prepared to intervene in exchange markets when necessary and desirable, to maintain orderly conditions. I am convinced -- and this view is shared by most of my colleagues abroad -- that the transitional arrangements in place are the best available response to current circumstances.

Meanwhile we are tackling the problem of establishing a permanent system with a strong sense of urgency. Two days ago the C-20 Ministerial Committee on International Monetary Reform completed its third meeting. We had a very useful give and take discussion on some of the key issues, and I believe we can begin to see the outline of workable solutions in important areas. Significant differences certainly remain, but it is clear to me that there is a general will to keep the ball rolling toward an agreed reform. I am particularly encouraged that there appears to be increasing acceptance of certain elements we have felt extremely important, including the need for symmetry in adjustment pressures between deficit and surplus countries and the necessity of backbone in the provisions to assure adjustment in the new system. As had been agreed in advance the meeting was a working session with no communique. I expect that the Committee will be able to summarize in more concrete terms the progress it has made at the annual meeting of the International Monetary Fund in Nairobi at the end of September and that we can proceed thereafter to hammering out a detailed agreement.

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282

ATTENTION: FINANCIAL EDITOR
FOR RELEASE AT 6:30 P.M., EDST August 1, 1973

RESULTS OF TREASURY BOND AUCTION

The Treasury has accepted $500 million of competitive and noncompetitive tenders received for its new 7-1/2% 20-year bonds auctioned today. Tenders from the public, all of which were accepted, totalled $260 million, including $26 million of noncompetitive tenders. Tenders of $240 million submitted for Government accounts also were accepted.

The lowest price accepted was 95.05, which is the price to be paid by all bidders. This price results in a yield of about 8.00% (to the maturity date of August 15, 1993).

In addition to the $500 million of accepted competitive and noncompetitive tenders, $425 million of the bonds were allotted to Federal Reserve Banks and Government accounts, in exchange for securities maturing August 15, at the price at which other tenders were accepted.

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283

August 3, 1973

Recommendations for Change in the U.S. Financial System

Department of the Treasury

Washington, D.C.
20220

August 3, 1973

Recommendations for Change in the U.S. Financial System

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Washington, D.C. 20220

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TABLE OF CONTENTS

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

(Embargoed for Release until 12 NOON EDT, Aug. 3, 1973)

To the Congress of the United States:

Our country depends on a strong, efficient and flexible financial system to promote sound economic growth, including the provision of adequate funds for housing. Such a system is one which allows financial institutions to adapt to the changing needs of borrowers and lenders, large and small, and is free to make full use of technological innovations.

Events during the last decade, however, have revealed significant defects in the operations of our financial institutions. On two recent occasions when the Federal Reserve System moved to restrain the economy, it was found that the inadequacies of our financial structures created unnecessarily severe burdens for the business community and the consuming public. The consumer-saver was denied a fair market return on his savings, while the consumer and small businessman, as borrowers, often could not obtain adequate funds to meet their requirements.

The inflexibility of our financial system can be directly attributed to the methods used by the Government to direct credit flows—methods designed to meet the depressed economic conditions of the 1930's but poorly suited to cope with the expansionary conditions of the past decade. In recent years, government regulations have limited the efficiency and flexibility of our financial system. Ironically, those regulations that were designed in part to keep a steady flow of funds moving into housing loans actually served to diminish that flow, severely penalizing both the borrower, who could not find funds, and the saver who received an unfairly low return on his savings.

As the Government tries to play its proper role in building a better financial system, we must proceed with one basic assumption: the public interest is generally better served by the free play of competitive forces than by the imposition of rigid and unnecessary regulation.

By law, thrift institutions—a category primarily composed of savings and loan associations but also including mutual savings banks—were created to provide funds for housing by maintaining large holdings of residential mortgages. However, earnings on holdings of previously acquired mortgages do not respond to changes in market interest rates. When market rates rise, the ability of thrift institutions to attract funds is limited and their ability to lend additional mortgage money is diminished.

Attempts to alleviate this problem by restrictive laws and regulations have achieved very little at great cost. The main technique has been to impose ceilings on the interest rates that financial institutions could pay savers for funds. The result, however, has often been a reduction in the flow of deposits to financial institutions. In many cases, in fact, deposits have been withdrawn so that they could be invested in higher yielding securities. Thus interest ceilings that were intended as a protective shield for the housing market turned out instead to be an additional burden.

Interest rate ceilings proved harmful to Americans both as savers and as borrowers in the late 1960's. Because the interest rate ceilings for deposits were often below market interest rates, small savers, who depended on banks and other savings institutions, were denied a fair rate of return on their money. On the borrowing side, smaller increases in savings deposits resulted in a sharp drop in loan funds available to consumers and small business firms.

Since financial institutions were prohibited from paying better interest rates, they were forced to compete for customers in other ways. Much of the public had to settle for so-called "free services" or even offers of consumer goods when in fact they may have preferred to receive higher interest on their deposits. In addition, such competition often led to increases in operating costs which prevented lending rates from declining when credit conditions later eased.

Finally, because of reduced inflows of savings, thrift institutions cut back on their mortgage lending or borrowed from Federal Home Loan Banks which had to pay market rates for their funds. Although the Federal Government stepped in and picked up some of the slack, mortgage flows were still disrupted.

Recognizing the need for action on all these problems, I appointed a Presidential Commission on Financial Structure and Regulation during my second year as President to study this entire matter and to make recommendations for reforming our financial institutions. The Commission's report identified quite precisely the causes of rigidity and instability in our financial institutions. Its recommendations were of major assistance in our further deliberations concerning the best ways to correct the weaknesses in our financial system.

The time to correct those weaknesses has come. Our current efforts to fight inflation and preserve the value of the dollar at home and abroad require strong financial markets. Without strong markets, the American public will be forced once again to bear excessive burdens.

If we do not act promptly, there is every reason to believe that those burdens will be even greater in the 1970's than they were in the 1960's. Educated by the last two credit crunches and by constant advertisements about interest rates, even the small saver will shift his funds to places offering higher yields. As market rates rise above passbook ceilings and the saver shifts his funds to obtain the higher interest rates, the result may be that little loan money is available from financial institutions.

In keeping with that analysis, I will propose to the Congress legislation designed to strengthen and revitalize our financial institutions. These proposals may be divided into seven major areas:

(1) Interest ceilings on time and savings savings deposits should be removed over a 5½ year period.

(2) Expanded deposit services for consumers by federally chartered thrift institutions and banks should be allowed.

(3) Investment and lending alternatives for federally chartered thrift institutions and banks should be expanded.

(4) Federal charters for stock savings and loan institutions and mutual savings banks should be permitted.

(5) Credit unions should be provided with greater access to funds.

(6) FHA and VA interest ceilings should be removed.

(7) The tax structure of banks and thrift institutions should be modified.

These recommendations would achieve the basic reforms our financial system requires. They represent the best suggestions from many different sources—from the Presidential Commission and from business, Government, consumer and academic communities.

The first five of these recommendations are designed to provide increased competition among banks and thrift institutions. Such competition would help to eliminate the inequities now imposed upon the small saver and borrower. My recommendations, and the increased competition that would follow, should reduce the cost of the entire package of financial services for the consumer. Furthermore, the saver would be assured a fair return on his money. In addition, thrift institutions would be strengthened, so they would no longer need the Government support required in the past.

Recommendations 6 and 7, along with the other recommendations, are designed to promote adequate funds for consumer needs, including housing finance. It is clear that interest ceilings on FHA and VA mortgage loans have failed to keep costs down, as evidenced in part by the widespread use of discount "points." At the same time, these ceilings have restricted the flow of private funds into mortgage markets. I will urge that individual states follow our lead and remove similar barriers to housing finance wherever such barriers exist.

The final recommendation would substantially broaden the base of housing finance. Although the final details have yet to be worked out, active consideration is being given to the creation of an income tax credit tied to investments in housing mortgages. Such a credit would be available to all lenders and could vary in direct proportion to the percentage of invested funds held in the form of such mortgages.

These recommendations are not the only steps being taken to strengthen the housing finance market. In my State of the Union Message on Community Development of March 8, 1973, I pledged that this Administration would undertake a comprehensive evaluation of our housing policies and programs and would recommend new policies to eliminate waste and better serve the needy. An interagency task force, under the leadership of Secretary Lynn, is now completing that task, and my recommendations will be presented to the Congress in the near future.

My recommendations on restructuring financial institutions represent a coordinated approach to this challenge, and I urge that they be considered as a package. For example, removing interest ceilings will not make a positive contribution unless banks and thrift institutions can expand their deposit and lending services. Flexibility and efficiency will be enhanced by placing competing institutions on a roughly equal footing with regard to three essential considerations: deposit powers, lending powers, and tax burdens. Finally, the tax recommendation and the removal of FHA and VA interest ceilings will help ensure more adequate funds for housing. The need for reform of our financial institutions is pressing. I urge the Congress to give these proposals its prompt and favorable consideration.

The White House, *August 2, 1973.*

SUMMARY OF THE PRESIDENT'S RECOMMENDATIONS

Events during the latter part of the 1960's showed that U.S. financial markets are ill-equipped to deal with periods of credit restraint. As interest rates rose because of inflation, thrift institutions faced a severe profit squeeze which threatened to cut off funds for housing.

Attempts to alleviate the crisis by regulation, mainly the imposition of ceilings on the amounts financial institutions could pay for funds, failed to keep funds flowing into the institutions at previous levels.

Interest ceilings adversely affected the public directly and indirectly. In their role as savers, for whom the thrift institution was a major place at which to save, consumers were denied a market rate of return on their money. Moreover, thrifts reduced in a disproportionate manner the availability of funds to consumers and small business firms.

Less direct, but equally costly to the public, interest ceilings contributed to severe setbacks in efforts to meet our housing objectives, and helped make the Federal Reserve's attempt to combat inflation with monetary policy needlessly costly and complicated.

The time to correct those defects in our financial structure is now. Current efforts to fight inflation and preserve the value of the dollar at home and abroad require strong financial institutions. Without them, there is every reason to believe that the burdens of credit restraint will be even greater than before.

Financial institutions are to be strengthened by phasing out Regulation Q over a 5½ year period; permitting all federally chartered banks and thrift institutions to offer a full range of checking and savings accounts, and permitting federally chartered thrifts to offer consumer and real estate related loans in competition with banks. Housing finance will be strengthened by the elimination of Federal Housing Administration and Veterans Administration interest ceilings and by a tax credit to all taxpayers investing in residential mortgages.

The dual banking system will be preserved and strengthened. Federal Reserve requirements on "checking" accounts will apply only to members of the Federal Reserve and Federal Home Loan Bank systems. Federal charters will be available for stock thrift institutions and for savings banks.

Credit unions are to be strengthened by broadened asset and liability powers and by access to a new source of liquidity administered by the National Credit Union Administration.

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BEFORE AND AFTER STATUS OF FINANCIAL INSTITUTIONS

COMMERCIAL BANKS

	BEFORE	AFTER
Deposit Powers		
	payments of interest: severe restrictions on all types of deposits.	5½ year phase-out of restrictions, then interest freely determined. However, no interest on demand deposits.
	savings accounts: individuals only.	savings accounts: full powers; individual and corporate.
	demand accounts: full powers; individual and corporate.	demand accounts: full powers; individual and corporate (no change).
	Negotiable Order of Withdrawal (N.O.W.) accounts: not permitted.	N.O.W. accounts: full powers; individual and corporate.
Lending and Investment Powers		
	real estate loans: severe restrictions *re* collateral, loan size, maturity and method of repayment.	real estate loans: modest restrictions *re* collateral, loan size, maturity and method of payment; *plus* community rehabilitation loans under a 3 percent leeway authority.
	equities: holdings severely restricted.	equities: holdings severely restricted (no change).
Taxes		
	tax credits: none.	tax credits: special tax credits for investing in residential mortgages.
Chartering alternatives		
	federal: yes state: yes	federal: yes state: yes } no change
Branching		
	national banks: } state law governs location state banks: } of branches.	national banks: } state law governs location of state banks: } branches (no change).
Summary		
	Consumer interests penalized. Opportunities to compete for funds limited and prohibitions restrict direct participation in housing and real estate finance. Absence of mortgage investment incentives given S&L's.	Consumer interests given high priority. Virtually unlimited opportunities to compete for funds; restriction against housing and real estate finance modified, and positive incentives for such investment, identical to those given S&L's.

THRIFT INSTITUTIONS

Deposit Powers

BEFORE	AFTER
payment of interest: severe restrictions on all types of deposits.	5½ year phase-out of restrictions, then interest freely determined. However, no interest on demand deposits.
savings accounts: full powers; individual and corporate.	savings accounts: full powers; individual and corporate (no change).
demand accounts: not permitted.	demand accounts: full powers; individual and corporate.
N.O.W. accounts: not permitted.	N.O.W. accounts: full powers; individual and corporate.

Lending and Investment Powers

BEFORE	AFTER
loans for housing and closely, related areas.	loans for housing and closely related areas; *plus* (on a limited basis) consumer loans; real estate loans under same conditions as commercial banks; construction loans not tied to permanent financing; community rehabilitation loans under a 3 percent leeway authority.
	commercial loans permitted only to extent they are closely related to housing.
equities: no acquisition of private sector issues.	equities: no acquisition of private sector issues (no change).
securities: no acquisition of private debt securities.	securities: limited acquisition of high-grade private debt securities.

Taxes

BEFORE	AFTER
loan loss deductions: preferential treatment compared to banks.	loan loss deductions: will move to experience basis; same treatment as banks.
tax credits: none.	tax credits: special tax credits for investment in residential mortgages; significant incentive to retain high percentage of portfolio in residential mortgages.

Chartering alternatives

BEFORE	AFTER
federal: mutual associations only.	federal: mutual and stock associations.
state: mutual and stock associations.	state: mutual and stock associations (no change).

Branching

BEFORE	AFTER
federally chartered: governed by FHLBB	federally-chartered: governed by FHLBB (no change).
state-chartered: governed by state law	state chartered: governed by state law (no change).

THRIFT INSTITUTIONS—Continued

BEFORE	AFTER
Summary	
Consumer interests penalized owing to prohibitions against service competition and enforced specialization between thrift institutions and banks.	Consumer interests strengthened by availability of new sources of supply of both deposit services and lending services and the promise of direct price competition between thrift institutions and banks.
Opportunities to compete for funds limited and little ability to withstand tight-money pressures without substantial government support.	Virtually unlimited opportunities to compete for funds. Ability to withstand tight-money pressures strengthened, minimizing need for government rescue operations.

CREDIT UNIONS

BEFORE	AFTER
Lending and Investment Powers	
severe restrictions.	less severe restrictions.
Chartering alternatives	
conversion to Mutual Thrift Institutions not permitted.	conversion to mutual thrift institutions permitted.
Sources of Liquidity	
private sector institutions only.	private sector institutions, *plus* NCUA-administered Central Discount Fund for emergency, temporary liquidity purposes only.
Taxes	
tax-exempt	tax-exempt (no change).

NARRATIVE EXPLANATION: BACKGROUND OF ISSUES AND RECOMMENDATIONS

Issue 1

PAYMENT OF INTEREST ON DEPOSIT ACCOUNTS

Background

Prohibitions against the payment of interest on demand deposits and interest ceilings on savings accounts were initially a product of the 1930's. The popular notion at that time—since proved incorrect—was that excessive interest rate competition among banks was the cause of bank failures. Thus Congress, with the enactment of the Banking Act of 1933, prohibited banks from paying interest on demand deposits and authorized the Federal Reserve Board to regulate the rate of interest member banks may pay on savings accounts. That era was also characterized by an orientation toward the borrower, in an attempt to bring the nation out of the Depression, rather than toward the consumer/saver.

Studies of the prohibition of payment of interest on demand deposits have shown the reasons for it were ill-founded. Moreover, the prohibition has not kept bank costs from rising during tight-money periods because banks have developed other sources of funds for which they have paid market rates. Unfortunately, misconceptions about the prohibition are so widely and strongly held that removal is not feasible.

However, development of "negotiable order of withdrawal" (N.O.W.) accounts and the development of "electronic funds transfer systems" (EFTS) can be expected to blur the difference between demand and savings accounts to such an extent that the prohibition will become meaningless. N.O.W. accounts provide most of the benefits that would be derived from interest-bearing checking accounts without forcing banks to pay interest on current demand deposits. They also allow banks a means of experimenting before any move to a system where interest is explicitly paid on demand deposits.

Working with the money flow theories of the 1930's, Congress, in September 1966, turned to interest ceilings to protect the deposit holdings of thrift institutions and thus the flow of funds into mortgage markets. It enacted legislation giving the Federal Home Loan Bank Board (FHLBB) and the Federal Deposit Insurance Corporation (FDIC) authority to regulate, in conjunction with the Federal Reserve Board (FRB), interest payments made by the institutions they supervise. The three supervisory authorities then agreed to formalize the historical interest differentials paid by thrift institutions over those paid by commercial banks at about 50 basis points (reduced to 25 basis points on July 5, 1973).

Interest ceilings on savings accounts have failed to achieve their objectives. Contrary to expectations, they did not protect the liquidity of thrift institutions by preventing an outflow of funds during periods of tight money, and thus did not produce funds for the mortgage market. Large savers enjoyed many alternatives for their savings which paid the higher market rates and reacted accordingly. Faced with a loss of funds, thrift institutions cut back on their mortgage lending or borrowed from especially created agencies, which had to pay market rates for their funds, or did both. The result was significant instability in mortgage markets, and accentuated differences between the rate of return to large and small savers.

Ironically, even though the small saver received less than the large saver, the cost of funds to thrift institutions rose appreciably. Ceilings did force those who, due to their unsophistication or small savings, had only limited outlets for their savings to accept less than market rates. However, large savers who withdrew their funds had the option of acquiring debt issues of Federal Home Loan Banks at market rates. Funds raised in that manner were then relent to thrift institutions at rates which were generally above deposit rates.

Interest ceilings also hampered the implementation of restrictive monetary policy. Because depository institutions could not attract funds, large and increasing credit flows were moving outside the banking sector. The base on which the Federal

Reserve operates decreased in relative terms, and its restrictive policies had to be made increasingly stringent at the same time that they became increasingly ineffective.

Formalized interest differentials may have prevented, to some extent, a shift of deposits from thrift institutions to commercial banks. If they did, the interest differential helped to maintain the viability of thrift institutions. That does not necessarily imply, however, that the differentials will be effective in future periods of high and rising interest rates. Educated by the last two "credit crunches" and by constant advertisements about interest rates, even the less sophisticated savers will shift their funds to the highest yield if market rates greatly exceed the passbook ceilings. Such shifts began occurring in the summer of 1973.

Thus it is increasingly unlikely that interest ceilings or differentials will continue to protect thrift institutions. Additionally, large corporations, which are not subject to ceilings, have already successfully experimented with small-denomination capital debentures—e.g., savings bonds. Any corporation or governmental unit is a potential competitor for the savings dollar. Savings institutions therefore must be allowed to compete for these funds if they are to continue to provide their intermediation function.

Should "free-competition" for funds cause some institutions to make imprudent lending and investing decisions, the situation can be remedied effectively through actions of the federal and state supervisory authorities. Blanket regulation of the entire deposit industry, geared to the lowest common denominator of management competence, is neither justified nor desirable.

Recommendation

The payment of interest on demand deposits will remain prohibited for all institutions.

Regulation Q is to be phased out over a period of five and one-half years. Parity of interest ceilings between commercial banks and thrift institutions is to be achieved by raising the rate permitted banks in four annual steps commencing 18 months after enactment of the recommendation. At the same time, preparations can be made for the complete elimination of interest ceilings on time and savings accounts.

N.O.W. accounts are to be subject to ceiling rates so long as the ceiling system remains in force. Such ceilings are to be uniform for banks and thrift institutions and may be no higher than the maximum rate on passbook accounts.

Administrative decisions on the actual levels of ceiling rates will be made by a coordinating committee composed of the FDIC, the FHLBB, the FRB, and the Treasury Department.

Issue 2

EXPANDED DEPOSIT LIABILITY POWERS AND RESERVES

Background

The elimination of preferential interest rate treatment for thrift institutions will necessitate adjustments in the structure of their deposit liabilities and assets so that they will be able to compete with commercial banks and other seekers of the savings dollar. Additionally, the decreasing effectiveness of interest ceiling differentials and technological innovations that blur the traditional lines between savings accounts and demand deposits are actual developments which call for the same remedy.

In the area of deposit powers, federally insured thrift institutions are prohibited by law from offering third-party payment services (i.e. bona fide checking accounts) but they may issue non-negotiable orders of withdrawal.

For their part, commercial banks are prohibited from offering savings accounts to their corporate customers. Such accounts were prohibited by the FRB in 1936 on the theory that they represent the indirect payment of interest on demand deposits. (Section 19 of the Federal Reserve Act prohibits member banks from paying interest directly or indirectly on demand deposits.)

Those constraints upon federally insured thrift institutions and member banks can be effective only in a world where all thrift institutions operate under the same rules and where there are relatively high costs attached to shifting funds from savings accounts to demand deposits. If that ever were the case, it no longer is so. Non-federally chartered thrift institutions in Massachusetts and New Hampshire are offering negotiable order of withdrawal (N.O.W.) accounts which are tantamount to and near-perfect substitutes for interest-bearing checking accounts. Such a system is made possible by advances in computer technology which enable any institution to offer customers low-cost rapid transfers of funds from checking to savings accounts and the reverse.

It seems imprudent to try to block those innovative changes sought by the consumer. Innovative minds will always find ways around piecemeal restrictions. However, if commercial banks and thrift institutions are permitted to offer the same range of services, some suggest that they should operate subject to the same ground rules. The more important of those rules covers the holding of reserves against accounts subject to third-party payments.

Imposition of comparable deposit reserves on all banks and thrift institutions is controversial. Comparability does not exist now, and differences between the Federal Reserve and the individual states on the issue of reserves is one of the important factors keeping the dual banking system alive. Of the 509 state-chartered banks opened for business in 1970 through 1972, only 30 joined the Federal Reserve System. However, Federal Reserve member banks hold approximately 80 percent of all demand deposits. There are substantive advantages to maintaining the dual system, particularly the advantages and innovations of competitive regulation and the avoidance of overly restrictive chartering policies.

Recommendations

For federal thrift institutions, checking accounts, third party payment powers, credit cards, and N.O.W. accounts will be available to all customers, individual and corporate.

For national banks, saving accounts and N.O.W. accounts will be available to all customers, individual and corporate.

All federally chartered institutions and all state chartered institutions which are members of the Federal Reserve System or the Federal Home Loan Bank System will be required to maintain reserves against deposits in demand and N.O.W. accounts in a form and amount prescribed by the FRB after consultation with the FHLBB. State chartered savings and loan associations insured by the Federal Savings and Loan Insurance Corporation (FSLIC) need not be members of the Federal Home Loan Bank System, just as state chartered banks need not be members of the Federal Reserve System.

N.O.W. deposits will be subject to the same range of reserves as demand deposits. However, the FRB after consultation with the FHLBB may establish a different level of required reserves for N.O.W. accounts.

Required reserves for demand deposits and N.O.W. accounts will range from 1 to 22 percent. Those for savings acounts will range from 1 to 5 percent and those for time accounts will range from 1 to 10 percent.

For state chartered institutions FDIC and FSLIC statutes will be changed to permit competitive equality, if such equality is sanctioned by state law.

Issue 3

EXPANDED LENDING AND INVESTMENT POWERS

Background

The removal of interest ceilings and the granting of a greater range of deposit powers can be expected to alter significantly the maturity structure of thrift institutions deposits. Those changes on the liability side require flexibility for compensating adjustments on the asset side. Such compensations should look to increasing income and enhancing liquidity through portfolio diversification—objectives that can be achieved only through the acquisition of shorter term and more diversified assets, such as consumer loans. Opening up those areas to thrift institutions can be expected to create downward pressures on the cost of credit to consumers and governmental bodies.

It might be argued that such significantly liberalized lending authority may curtail the flow of funds into housing. That issue is not easily resolved, but the Administration's task force concluded that the expansion of powers, coupled with the suggested tax changes, should not adversely affect the supply of mortgage funds. It is impossible to give definitive support to that position because theoretical arguments on both sides abound. The key seems to be the extent to which: (1) thrifts will shift long-term funds into short-term (non-mortgage) assets, and (2) the extent to which that shortfall would create market inducements encouraging other institutions (e.g. commercial banks and real estate investment trusts) to fill the gap. In its study of the issue, an Administration housing study group, chaired by the Council of Economic Advisers, concluded that the former would likely be small and that the latter would operate, leaving mortgage flows unaffected.

The possibility that commercial banks may fill the gap will be enhanced if current restrictions on their real estate lending are removed, especially in light of the removal of interest ceilings on savings accounts. Furthermore, commercial banks will be confronted by thrift institutions armed with a full range of consumer finance powers and, therefore will need to be more attentive to mortgage credit demands if they are to hold their customers for other consumer business.

However, since housing has a high social priority, it seems advisable to place some restrictions on the acquisition of "non-mortgage" assets and to increase the number of ways thrifts can participate in financing construction activity. In addition, changes are also being recommended in the taxation of banks and thrift institutions to assure a steady flow of funds into housing.

Since the impact of the proposed changes on the availability of mortgage funds is so important, a synopsis of the Administration's task force study on this matter will be found later in this booklet.

Recommendation

Federal savings and loan associations will be authorized to:

(1) make consumer loans not exceeding 10 percent of their total assets;

(2) make real estate loans under the same conditions as commercial banks;

(3) make construction loans not tied to permanent financing (i.e., interim construction financing as offered by banks);

(4) make community rehabilitation and development and mortgage loans on residential and related properties, including a participation in rental income or a share of capital gains on the sale of property, but with this leeway authority not to exceed 3 percent of their total assets;

(5) acquire high quality commercial paper and private investment-grade corporate debt securities in accordance with approved-list and other guideline procedures established by the FHLBB. Such investments are not to exceed 10 percent of total assets, with the maximum limitation to be set at 2 percent in the first year and growing to 10 percent, at the rate of 2 percent per year, over a 5-year period;

(6) utilize for consumer loans the unused portions of authorized investments in private corporate debt (commercial paper and debt securities) and leeway loans; and

(7) continue the acquisition of a full range of U.S. Government, state and municipal securities.

National banks will be granted:

(1) liberalized powers with respect to real estate loans;

(2) a leeway authority, not to exceed 3 percent of total assets, for community rehabilitation and development and mortgage loans on residential and related properties, including a participation in rental income, or a share of capital gains on the sale of property.

The FRB is to be granted more flexible authority to define assets eligible for discount, and the FHLBB is to be given expanded authority to broaden the definition of collateral required for advances to savings and loan associations.

Issue 4

CHARTERS FOR THRIFT INSTITUTIONS

Background

The dual banking system has contributed a great deal to the more efficient operation of financial markets. It has permitted an element of competition among supervisory authorities which has been conducive to innovation and experimentation by financial institutions. In addition, it has restrained supervisory authorities from overzealously protecting existing firms by restricting entry to the field.

The dual banking system is, however, incomplete. Federal charters are not available to mutual savings banks and federal law explicitly prohibits the federal chartering of *stock* savings and loan associations. Both types of institutions have been operating in a more than satisfactory manner at the state level for a number of years. There are no obvious reasons why federal charters should not be available to them.

Recommendation

The FHLBB is to be empowered to charter stock thrift institutions, granting them powers identical to those enjoyed by mutual savings and loan institutions.

Newly empowered federally chartered thrift institutions may be called either "savings and loan associations" or "savings banks."

State chartered mutual savings banks may convert to a federal charter and be granted all of the asset and liability powers available to all federally chartered thrift institutions. In addition, they may retain their life insurance, equity investments and corporate bond investments. Equity and corporate investments may be no greater than levels determined by their average percent of assets for the 5-year period January 1, 1968 through December 31, 1972.

State chartered mutual thrift institutions which convert to a federal charter will be insured by the FSLIC, even if they had been insured by the FDIC.

Issue 5

CREDIT UNIONS

Background

Credit unions represent a small but rapidly expanding portion of the nation's financial system. At the end of 1972, there were about 23,200 credit unions holding total assets of more than $24.8 billion. That represents only a 4.4 percent increase in the number of firms since 1965, but a 134.6 percent increase in their assets over the same period.

Because of their cooperative form of ownership credit unions enjoy, by law, many advantages not accorded other depository institutions, but must satisfy special conditions to keep those advantages.

Their principal advantage is exemption from income taxes, while the main constraint on their operations is inability to offer services to non-members. Membership is limited to those who share a "common bond of association."

That constraint does not impinge upon the operations of the vast majority of credit unions. Although there are credit unions that would prefer to offer the services of "mutual saving institutions," such an extension of powers would leave them indistinguishable from taxable institutions and their tax-free status could not be justified.

Credit unions deposit in and borrow from commercial banks. However, there is the possibility that in times of severe credit restraint, a credit union may face an emergency, such as a plant closing, and be unable to acquire short-term funds from the banking system. A totally-credit-union-financed "Emergency Fund" might be one method to solve this problem.

Recommendation

A Central Discount Fund will be established for insured (federal or state) credit unions solely to provide funds to meet emergency, temporary liquidity problems. Capital for the fund will be obtained through subscriptions by credit unions wishing to join. The Fund is to be administered by the National Credit Union Administration.

Additionally, there will be some minor liberalization of existing credit union powers. Credit unions will retain their tax-exempt status as long as they remain within the bounds of the existing tax law.

Credit unions that want to expand their services and assume the burdens of full service mutual thrift institutions will be permitted to do so. Procedures to facilitate an exchange of charters will be available.

Issue 6

FHA AND VA INTEREST CEILINGS

Background

One of many federal attempts to keep the cost of housing funds low is the administrative interest ceiling placed upon Federal Housing Administration-insured and Veterans Administration-guaranteed mortgage loans. Those attempts have by and large failed, as is evidenced by the widespread use of "points," and the move by the Federal National Mortgage Association in 1968 to a "free market system" for buying and selling mortgages. If administrative rates have kept costs down, it has been at the expense of fewer funds available for housing.

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Recommendation

The FHA and VA interest ceiling will be removed.

Issue 7

TAXES

Background

In light of the expanded powers to be granted thrift institutions and the overall goal of reducing the degree of functional specialization among financial institutions, the basic objective of the tax proposals is a uniform tax formula for all financial institutions. A "tax neutrality" is sought, by providing that a given investment or activity will be subject to the same income tax provisions regardless of the functional type of financial institution making the investment or engaging in the activity.

However, differences in tax treatment, and thus overall tax burden and effective rates of taxation among financial institutions, will continue to exist. Those differences will result from three factors: (1) the form of the institution, i.e., mutual bank versus capital stock corporation; (2) federal and state regulation which will grant certain types of institutions the power to make certain investments and engage in certain activities that are denied to other institutions; and (3) the extent to which an individual institution uses the powers granted to it.

The principal difference between existing income tax provisions applicable to commercial banks and savings institutions is in the area of deductions for additions to a reserve for losses on loans (Internal Revenue Code sections 593 and 585). Those provisions must be changed if there is to be a uniform tax formula. Furthermore, if changes are made in that area, conforming amendments will have to be made to a number of other provisions of the Internal Revenue Code which currently reflect the differences of existing law. Those other changes are technical in nature and do not involve policy considerations. Therefore, the recommendations which follow deal only with the provisions affecting deductions for additions to a reserve for losses on loans.

If the current subsidy being provided thrift institutions through the special bad debt reserve provisions is eliminated, a continued incentive to insure a flow of capital into the residential mortgage market may be provided through a mortgage interest tax credit. Such a credit would be equal to a percentage of the interest income earned on residential mortgages and would operate as a direct incentive in place of the indirect incentive currently being provided through provisions for loan losses. In addition, the mortgage tax credit could be used to compensate thrift institutions for the loss of tax benefit resulting from elimination of the special bad debt reserve deduction.

Recommendation

The special reserve provisions applicable to thrift institutions will be eliminated and all thrift institutions will compute reserve additions under an experience method similar to the one applicable to commercial banks.

Thrift institutions will be compensated for the tax benefit being eliminated by means of a new tax credit equal to a percentage of the interest earned from residential mortgages and other qualifying loans. The credit will be made available to all taxpayers and will serve as an incentive to attract capital into the residential mortgage market.

The size of the credit has not yet been decided, but it will be calculated so as to give thrift institutions full compensation for the tax benefit they would have received in the aggregate (based on projections for a future year) through deductions for additions to a reserve for losses on loans. To induce thrift institutions to continue their high level of investment in residential mortgages (to be eligible for the special bad debt reserve deduction they currently must invest 60 percent of their assets in qualifying real property loans and must invest 82 percent of their assets in such loans to receive the maximum tax benefit) and provide an incentive to other lenders to increase their level of investment in residential mortgages, the credit will be multi-level. For example, one rate might apply to those lenders who invest more than 70 percent of their assets in residential mortgages, a lower rate might apply to those lenders investing more than 50 percent of their assets in residential mortgages and still lower rates might be set for all other lenders. The specific rates and the investment levels have yet to be determined.

QUESTIONS AND ANSWERS

I

Payment of Interest on Deposit Accounts (Regulation Q, etc.)

Q. What are the current regulations governing the payment of interest on demand deposits?

A. Payment of interest on demand deposits by any insured bank is prohibited by federal statute, 12 U.S.C. 1828g.

Q. When and why was the payment of interest on demand deposits barred?

A. Payment of interest was prohibited in 1933 in the belief that deposit rate competition contributed to bank failures. Subsequent studies have failed to support that belief.

Q. What is the legal basis for the current regulations governing the payment of interest on time and savings accounts?

A. Federal law empowers the FRB, the FDIC, and the FHLBB to limit by regulation the payment of interest on time and savings deposits. Ceiling rates may be varied in accordance with deposit size, maturity, location of institution and any other basis deemed desirable in the public interest.

Q. When was that authority first granted those regulatory bodies?

A. The current broad grant of authority was first enacted in September 1966 at the time of the severe liquidity crisis.

Q. Why was it enacted?

A. It was believed at that time that ceilings on deposit rates would hold down the costs of deposit institutions (primarily S&L's) thereby alleviating the squeeze on their profits and maintaining them as viable suppliers of funds for housing. However, the ceilings failed to provide a protective shield.

Q. What is Regulation Q?

A. Regulation Q is a regulation issued by the FRB, under the authority mentioned above, governing the payment of interest by member banks on time and savings deposits.

Q. Are other regulatory bodies empowered to set interest ceilings for the depository institutions they supervise?

A. Yes. Under the legislation originally passed in 1966, both the FHLBB and the FDIC may set interest ceilings on the time and savings accounts of the institutions they supervise. Extension of that authority until December 31, 1974, is currently before Congress. Under current authority the FDIC has promulgated 12 CFR 7829.6 and the FHLBB 12 CFR 526.

Q. Are the same regulations applicable to commercial banks and thrift institutions?

A. Not entirely. The ceiling rate permitted thrift institutions is now generally 25 basis points higher than that permitted commercial banks. There are no ceiling rates on certificates of deposit of $100,000 or more, or on 4-year deposits of $1,000 or more (up to 5 percent of time and savings deposits).

Q. Has the differential between what commercial banks and thrift institutions can pay for time and savings accounts been due to a law or to administrative action?

A. Administrative action.

Q. Why are thrift institutions given an interest-rate advantage?

A. Because of the prominent role they play in funneling funds into housing markets.

Q. Why is elimination of that differential now being proposed?

A. The total package of recommendations contains other and more efficient means of encouraging financial support for housing, principally through the mortgage tax credit.

Q. What is a "N.O.W." account and how does it differ from a demand deposit?

A. A N.O.W. account is a negotiable order of withdrawal offered by mutual savings banks in Massachusetts and New Hampshire. In essence, they are checks drawn on savings accounts in those institutions. N.O.W. accounts differ from demand deposits in that such accounts bear interest and legally a bank does not have to honor it on demand.

Q. Why are you recommending the payment of interest on accounts that are essentially demand deposits while continuing the ban on interest payments for demand deposits?

A. Given the long period in which banks have not paid such interest they will need time to experiment with interest-bearing transaction accounts. Maintaining a distinction, however small, between N.O.W. accounts and checking accounts gives banks time for experimentation.

If interest could be paid immediately on demand deposits, it is believed that banks with their existing large balances of demand deposits would start paying interest on them and S&L's would never have a chance to attract such deposits. Also, many banks would feel that they were being forced by the government to pay such interest. And finally, by allowing N.O.W. accounts rather than interest on demand deposits we have introduced a degree of gradualism into the new world of paying interest on demand deposits.

Q. Why do you want to phase out Regulation Q?

A. We want consumer/savers to have the full benefit of market interests and thus to receive a fair return on their savings.

Interest ceilings on time and savings accounts have inhibited financial institutions from competing with the rest of the capital market for funds, particularly during periods of credit restraint.

Q. If you eliminate Regulation Q, won't we have the same type of cutthroat interest rate competition that led to numerous bank failures in the 1930's?

A. No. The statement that interest rate competition led to bank failures has not been supported by the evidence. There is little if any evidence that pure interest rate competition led to bank failures. The cause was, instead, poor investments.

If irresponsible deposit rates, inaugurated by isolated banks, should lead them to invest unwisely, this can best be handled on a case-by-case basis by the supervisory agencies. There is no point in penalizing all savers and all institutions for potential abuses by a few.

Interest rate ceilings in the past have proved to be discriminatory to the small unsophisticated saver while not really protecting the individual institutions.

Q. If you allow ceiling rates to increase, won't this mean higher rates on mortgages and bank loans?

A. Not necessarily. A number of interrelated factors have to be taken into account:

1. The interest rate for loans is determined by a market that is separate from the one which determines the interest rate for deposits. Although these two markets are indirectly related, they do not necessarily move in unison.

2. The market for mortgage loans is a long-term market, while the market for deposits is short and medium term.

3. To argue that removing Regulation Q will mean an increase in the average cost of funds for institutions is to assert that the Regulation has been effective in holding down the average cost of funds to the institutions. This has not been the case. What has happened has been a tilt in the yield curve with the average remaining about what it would have been otherwise—i.e., short-term Regulation Q rates have been depressed (savings accounts of small consumers) while the longer maturity deposits (big CD's) have been disproportionately bid up due to the intense competition by institutions for these relatively scarce deposits. We might expect this yield curve to "untilt" and thus not necessarily increase the average cost of funds to institutions.

4. However, the overall Regulation Q rates may go up and loan rates may go up. But if this happens, there will merely have been a redistribution of income from borrowers to savers. Who is to say that the consumer savers should not receive a fair return on their savings?

Q. Why not remove Regulation Q immediately?

A. S&L's, due to their portfolios of substantially all long-term mortgages frozen into fixed rates, do not have the ability to immediately start paying free competitive rates. They must be given a couple of years to adjust their portfolios so as to shorten the maturity of some of their assets (i.e., consumer loans) and improve their overall yield.

II

Expanded Deposit Liability Powers and Reserves

Q. What are the major differences in deposit liability powers between commercial banks and thrift institutions?

A. All thrift institutions, both federal and state chartered, offer a full range of savings account services to all customers, individual and corporate. However, thrift institutions may not offer demand deposit services. A major exception is the N.O.W. account offered by mutual savings banks in Massachusetts and New Hampshire. Among commercial banks only member banks of the Federal Reserve System may not offer a full range of both demand and savings account services to all customers. Member banks may not offer savings account services to their corporate customers. That prohibition is a regulation promulgated by the FRB. State chartered non-member banks are subject to state law on the issue of corporate savings accounts.

Q. Why have differing deposit liability powers for commercial banks and S&L's been established?

A. It has been generally believed that the longer maturity structure of thrift assets, vis-à-vis commercial banks, demands a longer maturity structure of deposit liabilities. Hence the general prohibition against S&L's offering checking accounts.

Q. Why the recommendation that the differences in deposit liability powers between S&L's and commercial banks be eliminated?

A. It will be beneficial for consumers and small businesses to be offered a full range of services by all institutions which wish to do so. The elimination of current differences is part of the overall plan to make thrifts more viable financial institutions. By possessing all the powers needed to compete for deposit funds, thrifts will no longer require the great rescue operations used in the past.

Q. Will changes in their liability powers require changes in their asset powers?

A. Yes. Permitting thrifts to have shorter-term liabilities requires that they possess shorter-term assets. Recommendations put forward by the President include proposals that would permit thrifts to make consumer loans and business loans related to real estate.

Q. Will these changes in liability powers mean changes in their deposit reserve responsibilities?

A. Not necessarily. If thrifts are members of the FHLBB system, and membership will be voluntary for state chartered institutions, reserves on their transaction accounts (demand and N.O.W. accounts, but not time and savings accounts) will be imposed by the FRB, after consultation with FHLBB.

Q. Will that be the same treatment accorded commercial banks?

A. Members of the Federal Reserve system will be subject to the same requirements on their transaction accounts as members of the FHLBB system. Again, membership will be voluntary for state chartered institutions.

Q. Will there be any differences between the reserve requirements for thrifts and commercial banks?

A. Yes. Current reserve (liquidity) requirements on time and savings deposits of thrifts will not be altered. Those on the time and savings accounts of commercial banks will be altered.

Q. Before we get into these changes what are the current limits on reserves?

A. Currently, the FRB is empowered to set reserve requirements on demand deposits from 10 percent to 22 percent for so-called reserve city banks and from 7 percent to 14 percent for all other banks.

Q. What are the requirements in effect today?

A. As of May 31, 1973 reserve requirements on demand deposits were

deposits ($ millions)	reserve requirements (%)
0–2	8
2–10	10
10–100	12
100–400	13
over 400	17½

Q. What will the new reserve requirements be?

A. They will range from 1 to 22 percent on transaction accounts (including demand and

N.O.W. accounts), 1 percent to 5 percent on savings accounts, and 1 percent to 10 percent on time accounts.

Q. In what form will reserves be held?

A. For Federal Reserve and FHLBB members, reserves will be held in a form and amount to be prescribed by the FRB.

Q. Are reserve requirements imposed on savings accounts?

A. Yes. Currently, member banks of the Federal Reserve system are subject to reserve requirements on savings accounts. Such reserves may range from 3 percent to 10 percent. At the moment the requirement for all banks is 3 percent. Nonmember banks are subject to state law.

Q. Are there any reserve requirements on time deposits and certificates of deposit?

A. Members of the Federal Reserve system must hold as reserves 3 percent of such deposits for the first $5 million and 5 percent for deposits over $5 million. Recently, the FRB imposed an 8 percent marginal reserve requirement (the regular 5 percent plus a supplemental 3 percent) on further increases in the total of (a) outstanding certificates of deposit of $100,000 and over issued by member banks, and on (b) outstanding funds obtained by a bank through issuance by an affiliate of obligations subject to the existing reserve requirement on time deposits. The 8 percent marginal reserve does not apply to banks whose obligations of those type aggregate less than $10 million.

Q. What proposals are being made for reserves on time and savings accounts in commercial banks?

A. For member banks reserve requirements on savings accounts will range from 1 percent to 5 percent and those on time accounts will range from 1 percent to 10 percent. State law will prevail for nonmember banks.

Q. What is the difference between savings accounts and time accounts?

A. Generally, the two differ in terms of the amount of time funds must remain on deposit and the rules governing withdrawal of funds.

For savings accounts, the depositor is not required by contract to leave funds on deposit for any specified period of time nor to give notice in writing of an intended withdrawal. However, the depositor may at any time be required by the bank to give at least 30 days notice.

For time accounts, the depositor agrees to leave funds on deposit for a specified minimum period of time and for many types of time deposits must give prior notice of withdrawal.

Q. Will new reserve requirements be imposed on time and savings accounts in thrift institutions?

A. No. The liquidity reserves imposed by the state or the FHLBB, whichever is applicable, will continue.

Q. Although the FRB imposes reserve requirements only on member banks, are you recommending that it set reserve requirements for all federally insured banks?

A. No, not all of them. The FRB will have authority to set, in consultation with the FHLBB, reserve requirements on transaction accounts of members of the FR and FHLBB systems.

Q. Won't that recommendation bring some thrift institutions under the control of the FRB?

A. Only with regard to reserve requirements on transaction accounts. There is no way to estimate at this time how many FHLBB thrifts will offer transaction accounts.

Q. Are there any reasons for preserving the dual banking system?

A. Yes. The dual system creates 52 laboratories for experimentation in bank regulation. Experimentation has taken place in areas of ancillary bank services and capital adequacy to the advantage of the banks and the public. In addition, the availability of alternative chartering agencies has resulted in increased competition and more service for the public.

Q. Why is it that state chartered banks which are not members of the Federal Reserve System do not have to hold the same reserves as the system members?

A. The history of our banking laws has been one of dual regulation of state chartered banks and federally chartered banks. We do not wish to damage this very healthy system of dual banking.

By providing a choice of chartering and supervisory agencies to banks and S&L's, we have fostered an innovative and progressive banking system.

We believe that states have the right to regulate their own banks so long as such regulation does not unduly interfere with the implementation of monetary policy which is, of course, a federal responsibility. From a practical point of view, most state banks hold reserves roughly equivalent to those of FR member banks. However, unlike the member banks, they are frequently able to put such reserve balances to productive use.

Q. Summing up, how will this decision on reserves affect financial institutions?

A. National banks—no change.

State Federal Reserve System member banks—no change.

State non-member banks—no change.

Federal S&L's—must hold reserves against demand deposits and N.O.W. accounts; no change on savings and time deposits.

State S&L's—if member of FHLBB (which almost all will remain), same as above. If not FHLBB member, state banking authorities will set reserve requirements. It is hoped they will be the same as for banks.

Mutual savings banks—same as for Federal and State S&L's.

The new ranges within which the Fed may set the reserve level are:

demand deposits and N.O.W. accounts — 1–22 percent
savings — 1–5 percent
time — 1–10 percent

III

Expanded Lending and Investment Powers

Q. What is the general purpose of expanding the lending and investment powers of thrift institutions and banks?

A. Generally, the expansion is part of the overall plan to make thrifts more viable financial institutions. More specifically, changes on the liability side require compensating adjustments on the asset side aimed at increasing income and enhancing liquidity. Those objectives can be achieved only through the acquisition of shorter term and more diversified assets, such as consumer loans. Opening up those areas to thrift institutions can be expected to create downward pressures on the cost of credit to consumers and governmental bodies.

Q. What are the current limitations on lending and investing by thrift institutions?

A. This can be answered precisely only about federally-chartered S&L's, since there are so many laws covering state-chartered institutions.

Currently, federally-chartered S&L's are generally restricted to making loans related to housing and real estate.

There are two exceptions to that rule. First, they may make passbook loans, that is loans to account holders secured by the deposits in their accounts. The size of loan is limited to the amount of funds in the account. Second, thrifts may make loans to individuals to pay for college, university or vocational expenses. Those loans are limited to 5 percent of assets.

Generally, S&L's are precluded by law and regulation from acquiring private sector debt obligations other than mortgages. They may, however, acquire the stock of so-called service corporations—corporations designed exclusively to provide related services such as data processing.

Q. What expanded lending and investing powers are being recommended for federal savings and loan associations?

A. Federal S&L's will be authorized to make consumer loans; make construction loans not tied to permanent financing; make community rehabilitation and development and mortgage loans on residential and related properties, including a participation in rental income or a share of capital gains on the sale of property; acquire high quality commercial paper and private investment grade corporate debt securities; utilize for consumer loans the unused portions of authorized investments in commercial paper and securities, and in community rehabilitation and development and mortgage loans.

Q. What expanded lending and investing powers are being recommended for national banks?

A. National banks will be granted liberalized powers with respect to real estate loans, and authority to invest in community rehabilitation and development and mortgage loans on residential and related properties, including a participation in rental income or a share of capital gains on the sale of property.

Q. Why should thrift institutions be given expanded lending authority?

A. This will allow them to pay the market rate for deposits by shortening the maturity and diversifying the composition of their assets, and increasing the yield thereon.

Q. Won't this diversification divert money from the home loan mortgage market?

A. The CEA study referred to earlier in the discussion of issue 3 concluded that such curtailment will not be significant in view of the other powers being extended to thrift institutions. Moreover, commercial banks can be expected to take up some of whatever slack does occur if current restrictions on their real estate lending are removed, particularly in light of the elimination of interest ceilings on savings accounts.

Q. Why are strict percentage-of-asset limitations being set on thrift institutions' expanded investment powers?

A. Since housing has a high social priority, it seems advisable to place some restrictions on the acquisition of non-mortgage assets and to increase the number of ways thrifts can participate in financing construction activity.

IV

CHARTERS FOR THRIFT INSTITUTIONS

Q. Why are there no existing provisions for federally-chartered stock thrift institutions?

A. At the time the federal law was enacted savings and loan associations were looked upon simply as self-help cooperatives, and there was thought to be no role for stock savings and loan associations.

Q. Why is it being recommended that Federal charters now be granted to stock thrift institutions?

A. Presently 21 states charter stock savings and loan associations. Experience with stock savings and loan associations has been at least as satisfactory as that with mutuals; therefore there is no good reason for the present statutory ban on federal charters. It is also believed beneficial to have a dual option of chartering and supervisory agencies to avoid two problem areas which emerge when a particular type of financial institution can be chartered by only one agency: first, the agency may become overzealous in protecting existing firms; second, the agency may not be as innovative and imaginative as it should be in exercising its authority.

Q. Under the recommendations will there be any difference in activities permitted stock S&L's, mutual S&L's, mutual savings banks, and the new savings banks?

A. Under the recommendations all federally-chartered thrift institutions will have essentially the same asset and liability powers. "Savings bank" will just be an alternative title available to newly empowered federally-chartered thrift institutions. However, state-chartered MSB's which convert to a federal charter will be able to retain their life insurance, equity investments and corporate bond investments. This will enable them to maintain their customary investments which will not be available to other existing or newly chartered federal thrift institutions.

Q. Won't allowing MSB's to convert and retain their investments undermine a dual banking system?

A. No. Allowing mutual savings banks, which can now be chartered in 18 states and Puerto Rico, the option to convert to a federal charter and maintain their customary investments will enhance the dual banking system. Allowing them to retain their investments upon conversion will give them a real option between either remaining under their present state supervisory agency or coming under a federal supervisory agency.

V

CREDIT UNIONS

Q. What is a credit union, and what special privileges does it enjoy?

A. A credit union is a cooperative nonprofit organization of individuals with a common bond of occupation, association or residence. The credit union's objectives are to promote thrift among its members and to provide them with a source of credit at reasonable rates of interest. Credit unions enjoy an income tax-free status since they are non-profit organizations.

Q. Are federal and state charters available to credit unions?

A. Yes; credit unions may be incorporated under a federal law or under the laws of 44 states.

Q. What resources are available to federal credit unions now to meet temporary liquidity problems?

A. Credit unions may use their investments or increase their direct borrowing from other credit unions and private sources such as commercial banks. However, to qualify for federal insurance, credit unions are limited by a ceiling on aggregate borrowing from all sources.

Q. What is being recommended to meet emergency problems?

A. The establishment of a Central Discount Fund (CDF) to be administered by the National Credit Union Administration is being recommended. It would provide funds to meet the temporary liquidity problems of its members.

Q. Will non-federally-chartered credit unions have access to the CDF?

A. Yes. All *insured* credit unions, either federal or state, may become members of the Fund.

Q. How will the CDF be funded?

A. The capital for the Fund will be supplied through subscriptions by member credit unions. (Presumably additional funds could be provided through the issue of debt obligations and from the deposits of credit unions as recommended by the Hunt Commission.)

VI

FHA AND VA INTEREST CEILINGS

Q. What are the current Federal Housing Administration and Veterans Administration interest ceilings on mortgages and who imposes them?

A. Interest ceilings on FHA-insured loans are set by the Secretary of Housing and Urban Development; those on loans guaranteed by the VA are set by the Administrator of Veterans Affairs. The ceiling on FHA-insured and VA-guaranteed loans was recently raised from 7 to 7¾ percent.

Q. What was the purpose of having interest ceilings on FHA- and VA-backed loans?

A. FHA insurance is intended to enable persons of modest incomes to more easily obtain residential mortgages. Ceilings on FHA and VA loans were imposed with the assumption that borrowers under these programs would pay reasonable rates of interest.

Q. Why are you recommending the elimination of those ceilings?

A. Experience has shown that the administratively set ceilings lag behind market rates for conventional mortgages. This has meant that either FHA- and VA-backed loans become unavailable during periods of rapidly rising interest rates, or the effective rate of interest on these loans is raised above the ceilings by the practice of charging "points," in effect buying the loan at a discount. Ending the ceilings will eliminate this practice and enable persons who rely on FHA- or VA-backed financing to obtain mortgages during periods of high interest rates.

Q. Won't elimination of the ceilings lead to a rise in mortgage interest rates?

A. At present, the interest rates on FHA- and VA-backed mortgages rise with market rates on conventional mortgages through the use of "points" (or mortgage money becomes unavailable). Elimination of the ceilings is not expected to increase the *effective* rate of interest charged on these mortgages but is expected to provide a steadier supply of funds for mortgages during tight money periods.

Q. Why won't there be a phase-out period for these ceilings, as is planned for the interest ceilings on time and savings deposits?

A. The removal of interest ceilings on FHA- and VA-backed mortgages is not expected to sharply affect interest rates charged on mortgage loans so their removal should not disrupt the mortgage market. Some fear that the removal of ceilings on time and savings deposits may lead to substantially higher interest rates on those deposits. Rather than expose financial institutions to perhaps damaging and sudden competition for those funds, a period of adjustment will be provided, during which these institutions will be able to learn through experience what rates are needed to attract necessary funds without damaging their viability.

Q. Will removal of FHA and VA interest ceilings eliminate all usury-type barriers to mortgage financing?

A. No. Currently, many states employ usury ceilings in the mortgage area. It is the Administration's hope that states which impose such ceilings will move toward eliminating them as soon as possible. During periods of severe credit stringency, arbitrary ceilings below market rates can keep funds from mortgage markets.

VII

TAXATION

Q. Why are changes being recommended in the taxation of banks and thrift institutions?

A. The purpose is threefold: (1) to assure a steady flow of funds into housing; (2) to achieve a tax neutrality by providing that the income from a given asset will be subject to the same tax provisions, regardless of the functional type of financial institution holding the asset; and (3) to place competing institutions on an equal footing.

Q. What are the current special reserve provisions which apply to thrift institutions and how do they differ from the reserve provisions applying to commercial banks?

A. The principal difference between existing income tax provisions applicable to commercial banks and savings institutions involves deductions for additions to a reserve for losses on loans. Currently, thrift institutions are granted more favorable terms than commercial banks.

Q. Will the recommendations completely eliminate all differences in taxation between thrift institutions and commercial banks?

A. Generally, yes. The special reserve provisions applicable to thrift institutions will be eliminated, and all thrift institutions will compute reserve additions under an experience basis rule of the type currently applicable to commercial banks.

Q. How will thrift institutions be compensated for his tax loss?

A. Thrift institutions will be compensated for loss of the tax benefit by means of a new tax credit equal to a percentage of the interest earned from residential mortgages and other qualifying loans.

Q. Would the proposed mortgage interest tax credit be available to all lenders?

A. Yes.

Q. What are the current provisions of tax law with regard to the treatment of loan losses of thrift institutions?

A. In computing taxable income, all deposit institutions may deduct from gross income an expense item called additions to reserves for bad debts.

Currently, thrift institutions may, in calculating that expense item, use the same methods available to commercial banks or, in the case of qualifying real property loans, a special method designed to increase the after-tax profitability of their mortgage holdings.

Under the second alternative, thrift institutions may deduct, for the year 1973, up to 49 percent of taxable income. Between 1973 and 1979 that maximum figure will be reduced gradually to 40 percent.

To obtain the maximum deduction permitted by law, at least 82 percent of a thrift institution's assets must be in so-called eligible assets. As the amount of eligible assets declines so does the percent of gross income which may be deducted as a business expense. If the percentage of eligible assets falls below 60 percent of total assets, the special method is not available.

With regard to non-qualifying loans, bad debt reserve deductions are made under the same ground rules as are applicable to commercial banks.

Q. What changes in the tax treatment of "additions to reserves" are being recommended?

A. As of the effective date of the legislation, all deposit institutions would operate under the provisions now available to commercial banks.

Q. What are those provisions?

A. Banks may deduct amounts in accordance with an "experience method" or a "percentage of eligible loan method."

Under the "percentage of eligible loan method," the amount to be deducted is the amount necessary to bring the level of the reserve for bad debts up to a specified percentage of eligible loans. That percentage is currently 1.8 percent but will be reduced to 1.2 percent in 1976 and to 0.6 percent in 1982. This method will cease to be available after 1988.

Under the experience method, the amount to be deducted is the amount necessary to bring the level of the reserve up to an amount reflecting the actual loss experience for the current year and preceding 5 years.

Q. When thrifts convert to the provisions available to banks, will the level of their reserves be low enough to permit them to deduct loan losses as a business expense?

A. Generally, no.

Q. Will thrifts be given any special treatment as a result?

A. Yes. Highly technical changes in the tax law will be made so that thrifts will continue to be able to deduct additions to reserves for bad debts as a business expense. However, the amount of the deduction will be substantially lower than that which is available under current law. Thrift institutions will always be able to receive a deduction for actual loan losses.

Q. Are the proposed changes in tax law designed to equalize the effective tax rates or tax burden?

A. No. The object of the recommendations is to create a tax neutrality with regard to the lending and investment activities of deposit institutions. Under the proposal, differences in effective tax rates and burden will continue to exist. Such differences will result from a combination of three factors: (1) the form of the institution (i.e. mutual vs. capital stock corporation); (2) differences in federal and state regulation governing the permissibility of certain investments and ancillary activities; and (3) the extent to which the individual institution utilizes the powers granted to it.

Q. What is the background of the bad debt reserve deduction?

A. Under current law a thrift institution is entitled to the special bad debt reserve deduction with respect to all *qualifying real property loans* (defined to include all loans secured by an interest in improved real property or secured by an interest in real property which will be improved from the proceeds of the loan). Improved real property includes residential property such as a single family home or apartment house as well as office buildings, shopping centers, warehouses, hospitals or other health, welfare, or educational facilities.

Based on 1971 figures, approximately eight percent of loans made by S&L's were not secured by an interest in *residential* property. In the case of MSB's virtually all of their mortgage loans were secured by an interest in residential real property.

The proposed mortgage interest tax credit is *limited to interest income from residential mortgages*, but is designed to compensate thrift institutions for the tax benefit they presently enjoy with respect to all real property loans.

Q. If the credit is limited to residential mortgages, what loans would be excluded?

A. All mortgages secured by an interest in commercial and industrial property, and loans secured by an interest in educational, health or welfare institutions or facilities including facilities used to house students, residents, patients, employees or staff members of such institutions or facilities.

Q. What effect will the proposal regarding bad debt deductions have on student loans?

A. Under current law, student loans are one of the types of investments that a thrift institution may make in order to meet the 82 percent test which will entitle it to the maximum bad debt deduction. However, the percentage of taxable income method is available only with respect to qualifying real property loans and does not include student loans.

Under the proposed change, the bad debt reserve deduction with respect to student loans will be unaffected. However, since thrift institutions will no longer be required to maintain a specified percentage of assets in eligible assets, student loans will be classified as consumer loans, for which there will be ample lending authority.

VIII

MORTGAGE AND HOUSING MARKETS

Q. Is the mortgage lending industry viable with its existing structure and regulations?

A. We take "viability" to mean the ability to withstand the effects of cyclical changes in credit market conditions without the need for massive Federal supportive intervention.

A conclusive case that the industry is not viable cannot be made on the basis of available evidence, but there appears to be a high enough probability to warrant attention. The instructive value of 1966 and 1969–70, the last two complete occasions when mortgage markets were under severe pressure, is not easily assessed, since many structural and regulatory changes have taken place over the last few years.

The chance of severe harm to thrift institutions has to some extent been moderated since 1969 by the improvement of the secondary market for both conventional and insured mortgages and by improvements in government sources of emergency liquidity. Moreover, thrifts and banks are now able to offer a "no-ceiling" deposit (minimum $1000 and 4 years) to the small consumer. On the other hand, there seems to be a general awakening of savers to the various forms of holding wealth alternative to deposits at thrift institutions. In addition, new alternatives to savings accounts have emerged in the last two years.

On balance, it appears that if present institutional arrangements were to continue, there would be good cause for concern about large-scale reductions in deposit inflows when market rates climb appreciably.

Q. How can we make the mortgage lending industry more viable without increased Federal support?

A. By implementing the balanced program of broadened asset and liability powers for financial institutions and restructuring tax support for residential mortgage lending.

Q. What are the present forms of government activities relating to housing and mortgage markets, including taxation?

A. Federal assistance to housing now takes two forms: (1) direct assistance to low-income persons building, buying or occupying dwellings and (2) a number of general tax incentives, some with accompanying restrictions, designed to encourage those same activities. Two major incentives are the deductibility of mortgage interest paid from homeowner's taxable income and the favorable manner in which savings institutions can add to bad debt reserves (beyond the levels warranted by losses) in return for the restriction that a high portion of their assets be held in residential real estate mortgage loans.

Q. How will Federal expenditures and tax preferences change if the President's recommendations are implemented?

A. The President's recommendations would not affect the structure of any direct program, but would substitute a tax credit for the bad debt provision for thrift institutions, and would make the residential mortgage tax credit available to all taxpayers. The amount of existing bad debt preferences for thrift institutions was estimated to be $545 million in fiscal 1971. If the tax credit is set at a level which does not alter the taxes paid by thrift institutions, the overall tax subsidy to housing will be larger since other investors will utilize the tax credit. If the overall subsidy is maintained at the current level, thrift institutions would receive less of the tax subsidy, with other holders of residential mortgages receiving the remainder.

Since the outlays in some Federal direct programs are positively related to mortgage rate levels, these would rise if rates increased and decline if rates decreased. If a mortgage tax credit is established in such a way as to compensate for the loss of subsidy through the bad debt reserve treatment, residential mortgage interest rates should not be higher as a result of this package. Indeed if anything they should be lower, as the tax credit would benefit all holders of mortgages. This would reduce direct Federal outlays on housing support programs.

Q. How would adoption of the President's recommendations on expanded powers affect mortgage markets both in the long run and cyclically?

A. The overall impact of the proposed changes on the mortgage market depends upon the relative magnitudes of two opposing effects.

First, expanded asset powers for thrifts, in and of themselves, might reduce the supply of mortgage funds from those institutions. However, the reduction would be small.

Elimination of interest rate ceilings for commercial banks would increase competition for savings and loan associations and mutual savings banks and thus contribute to the negative effect.

On the other hand since thrift institutions will be able to provide a broad range of consumer services, they would be in a stronger position to attract savings deposits. Since a good portion of these deposits would go into mortgages, the mortgage market would benefit.

Finally, the rate of personal savings in the economy might well increase, providing more funds for all financial intermediaries.

It is believed that the *net* effect on mortgage flows of all these nontax factors is approximately neutral. With an appropriate tax credit, the effect will be positive.

Additionally, an element of cyclical stability will be introduced. The new powers to be granted to thrift institutions would improve their ability to compete for funds, strengthen their cash flows, and thereby alleviate tendencies toward disintermediation (loss of deposits) during periods of financial restraint.

Q. Ignoring for the moment the mortgage tax credit, if the recommendations reduce the supply of mortgage funds, won't there be a corresponding decline in the supply of housing?

A. Not necessarily. Mortgage credit and housing finance are not identical. The former is only one constituent of the latter. Other constituents include personal wealth (e.g. savings accounts; funds from sale of current house) for home buyers and equity markets for the development and construction of housing projects and apartment houses.

The popular view is, however, that the rate of housing production is a captive of the amount of mortgage funds in both the short and long run. Those who believe this point to the data which show mortgage funds and housing moving together in the short run. However, that relationship is open to another interpretation: both housing and mortgages are simultaneously influenced by other factors. According to this view, high interest rates reduce housing production by reducing demand for housing and high interest rates channel funds away from thrifts (because of interest ceilings) which are legally required to invest in mortgages. Choosing between the two explanations is not easy. However, the most recent studies tend to support the second idea; credit conditions in general, not the availability of mortgage funds, influence housing over the long run. Over the short run the availability of credit is, however, a significant factor.

Under a contract to the Department of Housing and Urban Development, two Princeton University economists, Professors Ray C. Fair and Dwight M. Jaffee, prepared a report which attacks the problem directly. Using the Federal Reserve-MIT-Penn Model of the economy, the authors ran a number of tests simulating the impact of the Hunt Commission's recommendations during the 1960's. On the expanded powers, the President's recommendations are similar to those in the Hunt Report. The authors summarized the results of their tests as follows:

> "Our results indicate that the housing market would probably, on net, gain under the Hunt Report, while the mortgage stock may gain or lose depending on the specific assumptions. In any case, the magnitudes involved are small relative to the current outstanding stocks of these assets." *

Q. What implications would the recommended changes have for the conduct and effect of monetary policy?

A. The expanded deposit and asset powers for thrift institutions and banks, the abolition of interest ceilings, and the tax credit should make mortgage and housing markets less sensitive to changes in credit conditions.

Removing restrictions on interest paid on deposits would greatly moderate the shifts between deposits and other assets as market rates fluctuate. This would reduce the disorder in financial markets which has accompanied restrictive fiscal and monetary policies.

Q. What are "points."

A. A point is one percentage point of the total value of a mortgage loan. One or more points may be added to the homebuyer's closing costs to com-

*** Ray Fair and Dwight Jaffee, "An Empirical Study of the Implications of the Hunt Commission Report for the Mortgage and Housing Markets," HUD Contract H1781, April 1972, second page of Abstract.**

pensate lenders when market rates on loans are above usury ceilings.

Q. What are Government National Mortgage Association tandem plans?

A. Tandem plans were employed by GNMA to add support to housing markets. Under those plans GNMA would buy mortgages typically at above market prices and sell them later at market prices to private buyers (often pension funds). GNMA would absorb any losses that might result.

Tandem plans were suspended June 28, 1973.

Q. What is the Federal National Mortgage Association's role in mortgage markets?

A. FNMA, a private corporation since 1968, has as its primary responsibility providing secondary market services by buying and selling FHA-insured, VA-guaranteed, and conventional mortgages. The great bulk of current holdings is composed of FHA-insured and VA-guaranteed mortgages.

FNMA was permitted to begin secondary market operations by the Emergency Home Finance Act of 1970. However, it did not begin actual operations until February 14, 1972. At the end of April 1973, FNMA held $133 million of conventional mortgages and its rate of activity has increased substantially in 1973 over 1972.

IX

UNIFORM RESERVES

Q. Is it true that the President's recommendations do not call for uniform reserves on all third-party or transaction accounts such as checking accounts or N.O.W. accounts?

A. Yes. Under the President's recommendations only members of the Federal Reserve and FHLBB systems will be subject to federally-set reserves on their transaction accounts. Membership in those two systems will remain optional for state chartered institutions. State non-member institutions will continue to have their reserves set by the individual states.

Q. Why do the President's recommendations exclude the request for uniform reserves?

A. The question of uniform reserves has been discussed at great length over the years, by formal commissions and congressional committees. Although not critical at this point, should the lack of uniform reserves impede the implementation of monetary policy, the question must rightfully be opened.

Q. What has been the practical effect of voluntary FR system membership for state chartered banks?

A. Voluntary Federal affiliation has been healthy for the system and spurred creative regulations. At the moment, about 40 percent of all commercial banks holding about 80 percent of all commercial bank demand deposits belong to the Federal Reserve system. Most newly chartered banks obtain state charters but few of them elect to become members of the Federal Reserve system. Of the 509 state chartered banks opened for business between end-1969 and end-1972, only 30 joined the Federal Reserve system. Small banks used the correspondent banking services of large banks and most large banks belong to the Federal Reserve system.

Q. Why is it important to have uniform reserves?

A. The FRB maintains that uniform reserves are essential for the efficient conduct of monetary policy.

The reasoning underlying that argument seems to fall into two parts. First, the fact that all banks are not subject to uniform reserves limits the effectiveness of changes in required reserves as an instrument of monetary management. Second, there is the fact that demand deposits in non-member banks do not respond directly to other techniques such as open market operations.

As a result of those two factors some contend that member banks bear a heavier burden during periods of credit restraint than do non-member banks.

Q. What has been the practical effect of the existence of non-member banks on the conduct of monetary policy?

A. There is no easy way to answer that question. However, as of June 1973 non-member banks held about 22 percent of all commercial bank deposits and about the same amount of demand deposits of individuals, partnerships, and corporations (IPC deposits).

Some argue that under existing conditions non-member bank deposits need not affect the efficiency of monetary management. So long as the demand for deposit reserves by those banks is stable and predictable and so long as the FRB can control the supply of those reserves the efficiency of monetary management should not suffer.

However, over the longer run, changing circumstances may warrant a reexamination of this issue.

Q. Since the absence of uniform reserves has preserved the dual banking system, what advantages have accrued to the American public?

A. Generally, it has permitted an element of competition among supervisory authorities which has been conducive to innovation and experimentation by financial institutions. It has restrained supervisory authorities from over-zealously protecting existing firms by restricting entry.

Non-member bank deposits need not affect the type experiments on such issues as capital adequacy, capital debentures, and the extension of ancillary services such as data processing services, insurance services, messenger services and the like.

State law and federal law are not the same on those issues and thus some banks have more freedom on the issues than others. They have used that freedom to experiment. And supervisors have learned from those experiments. In some cases the freedoms have been extended to those who had not previously enjoyed them.

If preserved, the dual banking system can continue to serve the public interest and keep the federal system alert.

EFFECTS ON HOUSING OF CHANGES IN FINANCIAL STRUCTURE

The effect on housing of the recommended changes in financial structure can usefully be examined in two parts. First, the overall effect of all the changes except the tax changes can be estimated. Then the tax recommendations can be evaluated. Since the mortgage interest tax credit can in principle be set at any level, it can be established in such a way as to ensure that the overall impact on housing is not adverse.

However, the overall impact of the nontax recommendations together is not likely to be adverse. For that reason, the mortgage tax credit can be established on the basis of subsidies lost when existing tax treatments are changed.

Important to the issue concerning the effects of the Administration recommendations on housing is what effect, if any, the specialized system of mortgage finance has had on housing in the United States. Yet, as the Interagency Task Force Study on Housing chaired by the Council of Economic Advisers makes clear, it is important to realize that this is not the only consideration. There are two important central issues here. The first is what effect, if any, the recommendations will have on the supply of mortgage credit. The second is what effect a change in mortgage credit will have on housing. Even if the recommendations would decrease the supply of mortgage credit, as seems unlikely, it does not follow that anything like a corresponding effect must be transmitted to housing. The last point is not widely understood and merits elaboration.

As a matter of definition, a mortgage is secured by an existing (or potentially existing) house, but the creation of a new mortgage does not imply that new construction will necessarily take place. Nor does the construction of a new house in all cases require a mortgage.

First of all, "mortgage money" is widely used to finance existing housing in addition to newly constructed housing. Indeed, a homeowner may mortgage his house in order to pay for his children's college expenses, or to finance the expansion of his business. A larger mortgage may be sought to enable the home buyer to purchase furniture.* A family may choose a larger or a smaller mortgage, depending on its savings and other sources of potential borrowing. In general, mortgage credit (like any other kind of credit) is "fungible." That is, it can be used for any purpose the borrower chooses.**

Moreover, a mortgage is only one among a variety of sources of funds available to the borrower, whether he seeks money to acquire a house or for any other purpose.*** A family which owns its home outright may finance a new house simply by selling the old one. When outside financing is chosen, it can come either from a mortgage or from several other sources.

Furthermore, the financing of new housing involves not only homeowners but many other categories of investors. The following is a partial list of the types of financing which play a role in the production of housing:

(i) equity investment

—the accumulated savings of homeowners;

—equity for the development and construction of large housing projects, and

—equity investments in apartment houses.

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* In 1971, 35.1 percent of new S&L mortgage loans were classified as for purposes other than housing. Only 17.3 percent were classified as for the purpose of home construction.

** A typical household has a variety of outstanding liabilities (a mortgage, an auto loan, unsecured borrowing, credit card debt, and so on) which have been used to finance its assets. Fundamentally, there is no way to tell which specific asset is financed by which specific liability even though (in certain cases) one can specify which asset is used as collateral to back a specific loan.

*** The technical question is the size of the cross-elasticity of demand between mortgage borrowing and other forms of financing (such as the use of accumulated savings) for the purpose of residential construction. If this elasticity is very high, then, at the margin, funds from other sources are close substitutes for mortgage funds, and the demand for housing is determined independently of the supply of funds.

(ii) construction financing

—short-term debt money for developers and builders during the development and construction phases of housing.

(iii) other debt financing

—long-term mortgage funds for consumers;

—long-term mortgage funds for investors for the purpose of buying and renting housing units, and

—short-term loans for consumers and investors for repair and rehabilitation of housing.

These other sources of financing can (and sometimes do) act as substitutes for mortgage credit. In sum, mortgage credit and housing finance are not identical: the former is only one constituent of the latter.

Frequently, however, the distinction between them has been blurred. The popular view, which is held by many mortgage practitioners and home builders, as well as by some economists, regards the rate of housing production to be a captive of the *amount* of mortgage funds available—in both the short and long run. This view, which may be called the "bottleneck" hypothesis, is held so widely and firmly that few writers, at least until recently, have felt that it is open to question.*

Proponents of this view believe that specialized financial institutions provide additional funds for some borrowers to which they would not otherwise have access. They argue that savings and loan associations and mutual savings banks have produced higher mortgage flows and lower mortgage rates than would otherwise occur because they are forced to invest in mortgages. Thus, they contend that if the financial institutions which funnel funds to the mortgage markets are allowed to reduce their specialization because of the administration's recommendations, the flow of money for mortgages will be reduced and mortgage interest rates will rise.**

If this "long-run bottleneck" view is correct, then policy measures which subsidize or support the mortgage market (holding general credit conditions constant) will also increase the rate of housing production in the long run. Measures which support the mortgage as such will be effective without subsidizing housing directly.

Proponents of this view have supported their case by noting that mortgage flows and housing move together in the short run. Actually, several different interpretations of this numerical relationship are possible, including:

(a) the rate of housing construction is influenced by the supply of mortgage credit;

(b) the demand for mortgage credit is influenced by the rate of housing construction;

(c) mortgage credit flows and the rate of housing construction are influenced simultaneously by outside variables.

Although the first of these views is the popular one, it is the third which follows most naturally from received economic theory. According to this view, the mortgage and housing markets are stimulated or contracted simultaneously by outside influences—in the short run notably by fluctuations in general credit conditions.

The reasons are straightforward and combine two effects. First, when market interest rates rise, households defer long-term borrowing and purchases of long-lived assets, such as housing. Second, higher open market rates induce the public to move out of deposits at thrift institutions into marketable securities since these institutions cannot increase their interest rates on deposits by as much as the rise in open market rates. When the latter fall, funds shift back to institutions.

Thus, high interest rates (i) reduce housing production by decreasing the demand, and (ii) reduce mortgage flows by channeling savings away from the financial institutions that are legally required to invest heavily in mortgages. Such a mechanism would explain why the mortgage and housing markets have often moved closely together in the past. This view places little stress on the *structure* of financial institutions as a determinant of long-run mortgage flows, housing production and mortgage interest rates.

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*A paper by Arcelus and Meltzer contains a critique of the "bottleneck" hypothesis and some empirical evidence against it. See Francisco Arcelus and Allan Meltzer, "The Markets for Housing and for Housing Services," forthcoming in *Journal of Money, Credit and Banking*. Criticisms of the popular view began to appear in the literature many years ago, but have been largely ignored by the dominant school of thought. Other critics include Brunner, Hester, Jacobs, Mayer, and more recently Geisel and Jaffee.

**This argument would, of course, apply to only one part of the recommendations, i.e., that part pertaining to the investment powers of savings institutions. As described subsequently other changes proposed for the savings institutions would provide them with the potential to attract more funds.

Credit can and does flow to ultimate users via a number of routes. A dollar flows to where it can earn the best return, given risk, term to maturity, tax status, and so on. Thus, no one type of borrowing group can enjoy special rates, independent of such attributes, that arise from institutional constraints. Similarly, specialized institutions do not provide increased access to capital for special purposes such as housing.

This view says that a savings and loan association, for example, must be able to compete with other investment opportunities if it is to attract savings from the consumer. If the operation of S&Ls increased the aggregate flow of mortgage funds and lowered mortgage rates below rates of return in the other sectors of the financial markets, S&Ls would be in a weak position to compete for deposits and capital. At the same time, there are other types of financial institutions which provide funds to mortgage borrowers. If S&Ls increased their investment in mortgages, mortgage yields would fall, inducing other suppliers of credit to reduce their mortgage investments.

This approach implies that changes in the supply of mortgage funds, holding general credit conditions constant, will not materially affect housing construction. In this case, indirect policy measures such as the government purchase of mortgages will not succeed in stimulating housing in the long run because government lending simply displaces other lenders. In the short run (up to a year), a stronger case can be made that government purchases of mortgages will have a positive impact on the mortgage and housing markets, and this fact should not be lost sight of.

It is difficult to design and conduct a definitive empirical test of whether housing demand is more responsive to mortgage flows or interest rates. The best available work found by the housing study group supports the interest rate hypothesis. It is also very significant that a number of European countries have experienced the same type of behavior of mortgage flows, housing production and interest rates. This has occurred despite wide variety in the institutional structure by which housing is financed. Accordingly, the Task Force leaned toward the view that the financial effects on housing production operate primarily through general credit conditions and not through the specific characteristics of the mortgage market. Housing production is also presumably affected by economic variables specific to the housing industry itself. The Task Force accepted that credit rationing may occur in the very short run, but was persuaded that over any significant period of time it is the general level of interest rates, rather than the flow of mortgage credit, which acts as the rationing instrument for housing and other durable assets.

There remains the question of how the Administration's recommendations will affect the flow of funds into the mortgage market. This is still a relevant question for two reasons. First, nearly all economists agree that in the short run (about a year or less) changes in the availability and flows of mortgage credit importantly influence housing production. Second, it is of interest to note how the housing stock will be financed in the future. The impacts can be separated into cyclical and long-range.

It is hard to imagine how these recommendations could increase the cyclical variability of housing compared with recent years. The Task Force believes they will decrease it substantially by decreasing short-run disruptions of mortgage flows. This will result from two important sets of changes. First, traditional mortgage lenders will have their cyclical viability strengthened by broadened powers to hold assets and issue liabilities. Second, mortgages themselves will be made more attractive to nontraditional lenders as a result of the mortgage interest tax credit and improvements in the secondary market for mortgages.

Asset restrictions on thrift institutions and the poor development of a secondary market have made it very difficult for thrifts to weather periods of credit restraint for these reasons:

1. The absence of a secondary market in mortgages means that the institutions may not be able to sell their mortgages even with the appropriate capital loss, in order to meet the outflow of deposits.

2. The long-term maturity of mortgages and the resulting low rate of repayment and turnover implies that considerable time may be required before savings institutions can adapt to higher or rising interest rates.

3. The legal prohibitions on investment alternatives and portfolio composition that are placed on savings institutions limit the pool of alternative

assets that they could otherwise sell as an aid in their adjustment problem.

For all of those reasons, the ability of institutions to withstand loss of deposits is hampered by enforced specialization of investments. If their assets were diversified, savings institutions would be able to retain deposits more easily, and thus would not have to restrict new lending so severely. Consequently, the relaxation of portfolio restrictions is expected to help stabilize the short-run cycles in mortgage financing of residential building.

Liability restrictions have similarly made it hard for thrift institutions to maintain their mortgage lending when rates rise:

1. Interest rate ceilings limit their ability to compete with securities markets for funds.

2. Savings institutions are not entirely free to offer new types of deposits and other obligations that may increase their flow of funds.

3. They cannot issue demand deposits, which

(a) May have the advantage of being less interest sensitive than savings deposits; and

(b) Will allow them to provide to the customer services which he formerly had to obtain from a commercial bank.

Again, relaxation of these restrictions will help stabilize the capacity of institutions to provide housing finance in times of tight money. However, while deposit rate freedom should assist thrift institutions to maintain mortgage flows, it will not necessarily reduce the cyclical instability of housing construction. Given relatively elastic housing demand, a significant increase in the interest rates would still imply a significant contraction of residential construction.

Removal of state usury laws and Federal ceilings on insured mortgages should help mortgages attract funds. Use of variable rate mortgages may also do this and may help institutions raise their deposit rates to retain funds when market rates rise. The Task Force is not convinced that variable rate mortgages will be as beneficial as their proponents assert, but sees no reason to impede their use in the private market.

All these changes will stabilize the flow of funds into the mortgage market during periods of high interest rates. Accordingly, they will help eliminate pressures on the housing market caused in the past by the virtual withdrawal of thrift institutions from mortgage lending at these times due to their own precarious positions. Housing production will not be made constant over the cycle, nor should it be, since the demand of housing is highly sensitive to interest costs.

The long-run prospects for funds flowing into mortgages are harder to evaluate. The relevant changes recommended are: (1) relaxed restrictions in investment powers, (2) broadened powers to offer financial services, (3) relaxed restrictions on borrowing powers, (4) equal tax treatment, and (5) removal of obstacles to mortgage lending. Changes (2), (3), (4), and (5) should help mortgage and housing markets, while (1) tends to remove funds from the mortgage market.

Relaxed Restrictions on Investment Powers

The potential mortgage market impact of the proposals expanding lending powers is not simple to analyze.* At first blush, the ability of thrift institutions to invest in assets other than mortgages implies that mortgage flows would be lower. There are important qualifications to this view, however. By investing some of their money in nonmortgage assets, savings institutions will earn a higher rate of return and thus be able to offer higher deposit rates. As a consequence, savings flows could be higher. In addition, allowing savings institutions the opportunity to provide consumer loans will enable them to compete more effectively for consumer savings. When other factors are equal, convenience and familiarity lead people to borrow and to lend with the same institution. Thus, while competitive responses from commercial banks should not be excluded, one effect of allowing savings institutions to offer consumer loans could be larger savings flows to these institutions in the long run. To the extent that there is a greater flow of savings arising from both of these effects, the mortgage and housing markets will benefit.

Broadened Powers To Offer Financial Services

It is proposed that savings institutions be allowed to extend their service functions to consumers. The most important function would be the third-party payment services (primarily the issue of demand deposits). If savings institutions

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*See Dwight Jaffee, "The Entry of Savings Institutions into the Consumer Loan Market," Princeton University, February 1972.

could do so, their competitive position vis-a-vis other financial institutions, primarily banks, would be improved substantially. Savings institutions would be better able to compete for the funds of those savers who prefer one-stop banking. As a consequence of this recommendation, savings institutions will thus be in a better position to provide more funds to housing. At the same time, when commercial banks are faced with demand deposit competition, they will need to be more responsive in meeting consumer mortgage demands. In the past, a bank could send a consumer to a savings bank when a mortgage was needed and be relatively confident that that consumer's other business would remain with the bank.

Relaxed Restrictions on Borrowing Powers

Insofar as deposit rate ceilings faced by commercial banks are more severely constraining than those of savings institutions, their elimination would enable commercial banks to compete more vigorously for deposits. If deposits were drawn away from savings institutions, the net effect on aggregate mortgage flows would be negative. This effect could be blunted, however, by higher overall deposit flows to depository institutions induced by higher deposit rates. This would mean that funds were being bid away from other segments of the financial markets or that aggregate saving in the economy was increasing.

Equal Tax Treatment

The Task Force recommends two basic tax principles which, if jointly put into law, could have a positive impact on mortgage flows. First, Congress should enact a uniform tax formula for all depository institutions. Second, a mortgage interest tax credit should be allowed on mortgage investments. This credit would be based on gross interest income from residential mortgages. The credit would be allowed to all investors in such loans, and not solely financial institutions. Such a credit could completely replace the hidden tax subsidy implicit in the tax laws which allow savings and loan associations tax advantages. Of course, the impact of these tax proposals on the mortgage market will depend on how the tax laws are written and the size of the mortgage investment tax credit.

Mutual savings banks and savings and loan associations currently enjoy a tax advantage because their bad debt reserve deduction on qualifying real property loans exceeds actual default experience. The deduction allowed is dependent on an organization having a stipulated percentage of its total assets invested in a prescribed list of assets, the most important of which is mortgages. Thus, current tax laws for these savings institutions provide an incentive for investments in mortgages and supposedly an incentive for investment in housing. The mortgage investment incentive is limited, however, since it is not available to other types of institutions.

One approach in implementing a uniform tax structure for all depository financial institutions would be to base the bad debt reserve on actual default experience. This is currently the direction in which commercial bank taxation is moving. If this route were followed, and there were no offsetting tax credit on mortgage investments, mortgage flows from these institutions could decline. However, any such decline could be offset by implementing the mortgage tax credit proposal, which would act as a subsidy to mortgage flows.

Removal of Obstacles to Mortgage Lending

The Hunt Commission also proposed a number of ways in which the mortgage market could be made a more flexible instrument for financing housing. Since some of these require state action, while others simply exhort existing institutions to continue and expand what they are already doing, these recommendations were not included in the Task Force's overall judgment about the impact of the recommendations on mortgage flows.

The question here is how all these effects add up. The answer to this question will come primarily from judgment, but there is some empirical evidence which can contribute to judgment. Under a contract to the Department of Housing and Urban Development, two Princeton University economists, Professors Ray C. Fair and Dwight M. Jaffee, have prepared a report which attacks the problem directly. Using the Federal Reserve-MIT-Penn Model of the economy, the authors ran a number of tests simulating the impact of the recommendations during the 1960s. The authors summarized the results of their tests as follows:

> "Our results indicate that the housing market would probably, on net, gain under the

Hunt Report, while the mortgage stock may gain or lose depending on the specific assumptions. In any case, the magnitudes involved are small relative to the current outstanding stocks of these assets."*

*Ray Fair and Dwight Jaffee, "An Empirical Study of the Implications of the Hunt Commission Report for the Mortgage and Housing Markets," HUD contract H1781, April 1972, second page of Abstract.

To date, the Jaffee-Fair study has been the only direct empirical analysis of the recommendations, although there is a large empirical literature on the mortgage and housing markets. Other studies, using different econometric techniques, would be desirable. The interagency study group finds that the impact of the Hunt Commission proposals on the long-range flow of mortgage credit cannot be determined with any degree of precision, but may well be approximately neutral.

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U.S. GOVERNMENT PRINTING OFFICE. 1973 O—517-349

Department of the Treasury
Washington, D.C. 20220

Official Business
Penalty for Private Use, $300

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TREAS-551

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284

FOR IMMEDIATE RELEASE August 3, 1973

SENATOR CASE GIFTS U.S. TREASURY
WITH SURPLUS CAMPAIGN FUNDS

Washington, D.C. -- Secretary of the Treasury George P. Shultz today announced acceptance, in behalf of the Treasury, of surplus campaign funds from Senator Clifford P. Case of New Jersey, as a gift to the United States of America.

Acknowledging receipt of a check for $18,203.74 from the Committee for Senator Case to be deposited in the general fund of the U.S. Treasury, the Treasury Department's General Counsel, Edward C. Schmults stated:

"This generous donation is a tribute not only to Senator Case, but also to the members of the Committee, including former Secretary of the Treasury, C. Douglas Dillon."

Upon offering the gift of unspent campaign funds in behalf of Senator Case, the attorneys for the Committee wrote to Secretary Shultz in part:

"The motivation for this payment arises primarily from the fact that contributions were received by the Committee from people in all walks of life and of all political faiths around the country who wished to support the Senator in his bid for reelection. It is felt, therefore, that the unexpended balance of the funds collected in his behalf should be used for the benefit of the people of this country generally, rather than Republicans and the State of New Jersey only."

There is no Federal law or regulations that would tax or forbid acceptance of this type of gift. That includes the Federal Elections Campaign Act of 1971. As a gift to the United States, the donation qualifies as a charitable contribution under both the Federal income tax and gift tax laws. Additionally, the donation has no New Jersey tax consequences and does not violate

S261

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the New Jersey election laws.

The Committee for Senator Case raised a total of $159,574.39 and expended $141,370.65 during 1971 and 1972 to finance the reelection campaign in 1972. The gift from the Committee of the surplus campaign funds will be available for general expenses of the United States Government as directed by the Congress in appropriation laws.

The Committee of six members, in addition to Mr. Dillon, included The Honorable Millicent H. Fenwick, and Messrs. Leslie L. Blau, Charles Brower, J. Gardner Crowell, and Reeve Schley, Jr.

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WASHINGTON, D.C. 20220 TELEPHONE W04-2041

285

FOR IMMEDIATE RELEASE August 6, 1973

UNITED STATES AND ROMANIA TO DISCUSS
INCOME TAX TREATY

The Treasury Department announced today that representatives of the United States and the Socialist Republic of Romania will meet in Bucharest during October for discussions of a proposed income tax treaty between the two countries.

The proposed treaty is expected to cover such issues as the tax treatment of joint ventures and other business activities in one country by a firm of the other country, and of individuals from one country temporarily present in the other country for business, educational and cultural purposes. The taxation of dividends, interest and royalty remittances will also be considered.

Persons wishing to offer comments or suggestions on matters relating to the discussions are requested to submit their views in writing by September 15, 1973, to Mr. Frederic Hickman, Assistant Secretary for Tax Policy, U.S. Treasury, Washington, D.C. 20220.

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S-262

RADIO TV REPORTS, INC.

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2 86

FOR U. S. TREASURY DEPARTMENT

PROGRAM Issues & Answers STATION WMAL TV

DATE August 5, 1973 1:30 PM CITY Washington, D.C.

FULL TEXT

ANNOUCER: George P. Shultz, Secretary of the Treasury, here are the issues.

DAVID SCHOUMACHER: Should beef price controls be lifted before September 12th?

HERBERT KAPLOW: Are we headed for a recession?

SCHOUMACHER: What is Watergate doing to the economy?

ANNOUNCER: From Washington, D.C., the American Broadcasting Company presents the award-winning interview program Issues & Answers. Secretary of the Treasury George P. Shultz, Assistant to the President, and one of the chief architects of Phase IV, will be interviewed by ABC News correspondent David Schoumacher and ABC News correspondent Herbert Kaplow.

KAPLOW: Mr. Secretary, some people have started to express fears about a recession. Are you worried about that?

SECRETARY GEORGE P. SHULTZ: We always must be concerned about the pace of the economy, but I don't see any evidence that a recession is looming ahead of us.

KAPLOW: What do these increased interest rates mean?

SECRETARY SHULTZ: Well, they mean that there is an extraordinary economic boom going on in the United States, and the counterpart of that is a great demand for credit on the part of business and consumers, and that's what's bidding up the interest rates.

SCHOUMACHER: One of the factors that pointed to was just this, the high interest rates, by AFL-CIO President George Meany. He said these high interest rates are going to dry up housing construction and that that will inevitably impact on the rest of the economy, and before the end of 1974 there'll be a recession. Would you agree with that?

287

SECRETARY SHULTZ: Well, the effort to control the budget and to control the rate of expansion in our money supply, which results in higher interest rates, is an effort to cool off the economy, in the sense that it has been rising in the fourth quarter of last year, in the first quarter of this year, at a rate that can't be sustained. Our economy tends to grow at a roughly 4%, or a little better, rate of real growth. That's what we can do, and we have been rising at a rate over 8%. So we have to get back down to that 4% rate, and you get there by tightening up on the flow of demand for goods and services.

SCHOUMACHER: Mr. Schultz, don't misunderstand the question, but would you really tell us there was going to be a recession if you thought there was going to be one? By that I mean, don't all administration economists have to give us a balanced look?

SECRETARY SHULTZ: Well, I think you have to start with a proposition that any administration, certainly this administration, does not want a recession. We want to have policies that will give us a growing economy with reasonably stable prices. That's the objective that we have and that any administration would have. And we think that the policies that we have are the best designed to get us there. We think we are on the track of supporting an expanding economy, but not a wildly expanding economy, and we have policies that are designed to avoid falling into a recession.

SCHOUMACHER: But what I mean is there is some professionalism that attaches itself to economic forecasts, and yet politically, you have a responsibility to say that things are going to get better, or they're not going to get that bad.

SECRETARY SHULTZ: Well, if I felt differently, I wouldn't hesitate to say so, but more important than that, I would be doing my best to help construct economic policies that would avoid it.

KAPLOW: Are you satisfied with the present Federal Reserve policies insofar as the monetary supply is concerned?

SECRETARY SHULTZ: Well, I think the record shows that the money supply has been increasing, particularly in the last three or four months, at a rate higher than the Federal Reserve's policies suggest they want, so they are struggling to get better control of the money supply. So I am in accord with the policy statements, and, as you know, they publish those with about a three-month lag, so you can look back and see what they were trying to do, and I think we have some appreciation of the difficulties of carrying those policies forward, but the policy of restraint on the money side, as well as on the budget side, right now, we think is the right policy.

KAPLOW: You are satisfied, then, that the economy is

288

being cooled at an optimum pace.

SECRETARY SHULTZ: As best it can be done. Now, this is a gigantic economy, very diverse, with all sorts of things going on. Government policy is important and we're trying to contribute to orderly, sustainable economic growth, and whether we are just exactly right or not is very hard to say, but as best we can, we're trying to operate that kind of a policy, certainly.

KAPLOW: Well, let's look at the related matter, the direct problem of inflation. You have come out against a tax increase as a means of trying to curb inflation. There are some prominent economists who feel that maybe a tax restraint at this moment might be helpful in curbing inflation.

SECRETARY SHULTZ: Well, what I think there is general agreement on -- I don't say everybody agrees with this -- but the President's policy is, and I agree with it, that what we need right now is a balanced budget. And we believe that we can get that balanced budget by controlling outlays and keeping those outlays within the revenues that the present tax system will produce. And so, in order to attain the fiscal policy we want, we don't need a tax increase. What we need is discipline on federal spending, and we see every prospect that that discipline can be exercised.

SCHOUMACHER: While you feel that you're at that sort of knife-edge of a finely balanced program, there's been a good deal of criticism recently from...

SECRETARY SHULTZ: Could I just interrupt you a second?

SCHOUMACHER: Certainly.

SECRETARY SHULTZ: I don't think that this sort of knife-edge image is really the appropriate one because I don't think anyone can calculate it that finely. I mean, a knife-edge implies something that is really sharp and precisely right, and, as I said a minute ago, I think you hope to be broadly right, and you can't be quite that precise about it.

SCHOUMACHER: Well, the AFL-CIO Executive Council said recently you weren't even broadly right, that you were doing such a bad job that the country had lost confidence in the administration's ability to handle the economy. Do you see signs, especially from the stock market, that that may be true?

SECRETARY SHULTZ: Well, let me say this. There are many problems, and we have to be conscious of them, be addressing ourselves to them, and our natural tendency, your natural tendency, ours, as we work on economic policies, is to look at the problems we have and to try to solve those problems, and, of course, our biggest problem is inflation. That's the thing that is on everybody's mind. However, we shouldn't allow our preoccupation with that problem to obscure the fact that there are many extremely good things about the economy. We have about three million more jobs than we had at this time last year. We have rising per capita real income in the economy. We have rising production. We have a lot of investment in new plant and equipment, which is a sign of confidence in the future, and so on. So there are many good things about this economy.

KAPLOW: Mr. Secretary, on the matter of real income increasing over a long haul, which you folks maintain is so. I believe Senator Proxmire says that's not so. I don't think I'm misquoting him.

SECRETARY SHULTZ: There are various figures that you can get up, one of which shows that what is called real spendable earnings of production workers, which didn't rise at all from about 1965 to 1970, then rose sharply until early 1973, has stabilized and fallen a little since then as a result of, first, a large increase in Social Security taxes and, of course, the rate of inflation. That's one measure.

KAPLOW: Now, many people fit into that category?

SECRETARY SHULTZ: A broader measure -- a broad measure, the broadest measure we have, is to take all personal income and divide it into our population, and you get a per capita personal income figure. That has been rising and it has been rising at about, in the most recent year, about a 3% rate.

KAPLOW: Could that not conceivably mean that some very wealthy people are doing a lot better, and meanwhile, the average guy isn't?

SECRETARY SHULTZ: It could, but basically, it doesn't. I think probably the most powerful thing it represents is this figure I mentioned earlier, namely, that there are three million more people working this year than last year, and they are getting income.

SCHOUMACHER: But Mr. Shultz, you're certainly aware of the grumbling of a good number of people, the individual citizen who says, "I can't get meat, and if I could get it, I can't afford it. My cost of living is skyrocketing. I'm not making any more money this year."

SECRETARY SHULTZ: I'm certainly aware -- I'm aware of it because my wife points it out to me all the time.

SCHOUMACHER: Well, given this sort of a landscape, how would you like to be a Republican congressman up for reelection in 1974?

290

SECRETARY SHULTZ: Well, I think the best tactic is to acknowledge the problem and to be working to try to solve the problem, as we are, but at the same time, and I don't think this is just a matter of politics, but it's a matter of perspective, for everyone to see the good things that we have about the economy. And in terms of policy, not to get so uptight about the problem of inflation that we do things, that is, we pile on a big heavy tax increase and extraordinarily tight money and so on, that would create a recession. We don't want to do that. We want to keep our perspective, and that's what we're trying to do in the administration.

SCHOUMACHER: We'll return to the problem of perspective and more issues and answers in just a moment.

* * *

KAPLOW: Mr. Secretary, more and more people seem to be calling for an earlier end for the deep freeze than the presently scheduled September 12th. Are you going to lift it before September 12th?

SECRETARY SHULTZ: Well, that remains to be seen. The last I talked to the President, that was the date that had been set, and, as far as I know, he hasn't shifted his view on that.

KAPLOW: That "remains-to-be-seen-phrase" is sort of intriguing. Is that rolling back a little bit from the hard-and-fast, irrevocable September 12th pledge?

SECRETARY SHULTZ: No. It is just a recognition of the fact that lots of questions have been raised and lots of pressure has been put on. The Senate voted, what, 85-to-4, or something like that, for removing the freeze on beef prices. I think it is instructive to note that at least the Democrats in the Senate voted unanimously to have a 90-day freeze not long ago, and now they've voted, practically unanimously, I suppose; I haven't examined that vote, to lift it. So I don't know quite what they have in mind.

SCHOUMACHER: When you were testifying before the Joint Economic Committee of Congress, you said you'd certainly like to know what the Congress felt on this issue. Congress told you fairly emphatically with that 85-to-4 vote.

SECRETARY SHULTZ: The Senate.

SCHOUMACHER: I'm sorry. The Senate did, yes. What more evidence can pile into the computer before you decide to lift it?

SECRETARY SHULTZ: Well, I think the evidence, of course, 7-91

that we have to evaluate is evidence about, particularly, any long-term effect on the production of cattle. That's the critical thing, and so far as I can determine, know at this point, and I don't pretend to be an expert on this, we do not have any long-term adverse effect there. The cattle that are being held off the market today are going to have to come on the market at some point in the future, and there isn't any tendency for the volume of new production, so to speak, of cattle to decrease any.

SCHOUMACHER: Do you accept the cattle industry's -- the beef industry's predictions that beef prices will go up as much as 20% on September 12th?

SECRETARY SHULTZ: I think that that is quite on the high side. And, of course, the more they hold back now, the more will come onto the market on September 12th and thereafter, and that will tend to hold the prices down in the future.

KAPLOW: Mr. Secretary, what are the merits and demerits of keeping the freeze on until September 12th?

SECRETARY SHULTZ: Well, the merits are, and the reason for doing it in the first pllace is, that we wanted to spread out the inevitable increase in the various food areas over a little period of time so it didn't all sort of burst on the consumer at once, and so the prices of pork and the prices of poultry and a number of other food products were allowed to increase at retail in the sense of passing through the increased cost of the raw agricultural product. And the price of beef was kept frozen at retail so that while some of these prices would go up, there would be one that was frozen. Now, we knew when we did that that there would be some holding back of cattle from the market and that there would be an adverse short-term effect on supply, not a long-term, but short-term. And the judgment was that in the area of hogs and poultry, that the long-term consequences were serious, and those ceilings should be lifted immediately. That was the general idea of it, and I think on the whole that is right.

SCHOUMACHER: But as you pursue this September 12th date, don't pork and poultry prices become even more aggravated?

SECRETARY SHULTZ: They do.

SCHOUMACHER: You're talking about a period of five weeks. That seems to be fairly arbitrary, that knife-edge.

SECRETARY SHULTZ: Well, you have to pick a date, and so that date becomes a knife-edge, but it is a point in time.

And I think you have given the other side of it, namely, that when you hold down these prices, all the demand flows to the other prices, and those prices tend to rise more than they otherwise would, and you get some sort of equilibrating force there, and that's kind of the other side of the argument.

SCHOUMACHER: You mentioned your feedback that you were getting from your wife. What do you do in your house today when you can't find beef, or can you still afford it, are you hoarding it...

[Confusion of voices]

SCHOUMACHER: You can't go to the White House any longer to get sirloin, apparently.

SECRETARY SHULTZ: Well, I'll tell you, one thing that we haven't done is to fill up our freezer with beef, and I think an awful lot of people have done that, and that's one reason why we see some shortages. There's been a tendency of people to buy more than they need currently, and that has aggravated the situation. But what we have done -- as you can see, I have probably eaten more than I should in recent months and years -- is to examine our diet and to see if we wouldn't all be a little better off if we didn't eat quite so much of various things and have a little bit more balanced diet. And I think that wouldn't be a bad idea for lots of people. I know it's a good idea for me.

SCHOUMACHER: I asked you before about imagine yourself being a Republican congressman. Isn't this really almost untenable for a politician to go before the people next year and say, "Don't eat so much. Eating is bad for you."

SECRETARY SHULTZ: Well, I didn't propose that they should say that, but I'm just telling you what my viewpoint is.

KAPLOW: Mr. Secretary, I've asked you this a couple of times today. I just want to make sure...

SECRETARY SHULTZ: I didn't say you shouldn't eat so much. I said you should have a balanced diet and that for many of us, a little different dietary habit would probably be a good thing. I know it would be for me.

KAPLOW: With or without meat?

SECRETARY SHULTZ: Well, I expect to continue to eat meat.

KAPLOW: Again, I'm going to ask you the question again because I don't know whether I'm being hypersensitive to this. Have you changed your position, the relatively rigid stand on the

293

September 12th lifting of the beef freeze?

SECRETARY SHULTZ: That date stands and that is the posture that the administration is in.

KAPLOW: Now, let's move into the broader area of controls. August 12th is Phase IV's inauguration. Are you geared up for it?

SECRETARY SHULTZ: Yes, we are, and we've worked very hard to get geared up. As you may know, we put out the regulations that implement the policy decisions that were made for comment. And those comments were due on July 31st. We had some 671 formal statements, and we've had a lot of questions and meetings that we've held. Those have all been carefully reviewed by the staff of the Cost of Living Council and the Director, and regulations will be issued tomorrow for the general industrial area. Regulations will be issued probably Thursday for petroleum products. We have reviewed the administrative practices carefully, and we think we have a set of rules that are administrable, enforceable, and a system for going about that that is better than anything that we've had before.

KAPLOW: And you claim they're tough.

SECRETARY SHULTZ: They're tough, but more than that, they are being organized in the administrative process with the Internal Revenue Service and the Cost of Living Council staff so that it will be possible to implement them, I think, more effectively than we've ever been able to do before.

SCHOUMACHER: Secretary Shultz, we'll pause there for a moment, and return in just a minute with more issues and answers.

* * *

KAPLOW: Mr. Secretary, has Watergate affected the economy?

SECRETARY SHULTZ: Of course it's affected the economy. It is on people's minds, and I think probably is reflected somewhat in the behavior of the stock market. But, overall, in terms of the economy, the volume of employment, production, income, as we said earlier, that is all going forward at a healthy pace. But I'm sure it does have a psychological effect on people's attitudes.

KAPLOW: You have a couple of agencies under the broad covering of the Department of the Treasury -- the Secret Service, Internal Revenue Service. They have been mentioned in connection with the whole Watergate...

SECRETARY SHULTZ: They're both great outfits and they've

294

both done a great job.

KAPLOW: Well, they have been named and there have been allegations made. Have you been concerned to the extent where you would try to write new regulations concerning these agencies, these sub-agencies, in any way, to keep them from possibly being compromised?

SECRETARY SHULTZ: Well, we have been doing two things. First, whenever a charge is made, we investigate it and we try to find out if there is anything to it, and, second, of course, we have been reviewing our own procedures to be sure that we are conducting our business in a proper and fair way and do everything we can to learn from any experience that we have. The Internal Revenue Service is being looked into, all the charges, by the Joint House-Senate Committee that works on tax matters, and as soon as they started that investigation, the President instructed that we be fully cooperative with that investigation. We are being, and our only sense of dissatisfaction with the investigation is that it isn't going fast enough. We'd like to see this matter cleared up, and whatever there is to be found out, find it out. But I think what is going to come out of that investigation is that everyone will be very impressed with the good way in which the Internal Revenue Service has conducted its business.

KAPLOW: There is no evidence, as far as you know, to suggest that the Internal Revenue Service may have been used for tax audits against political enemies?

SECRETARY SHULTZ: There have been lots of allegations of that. It is all being gone into very carefully by this joint committee. Of course, we are too. Wherever all of these lists that presumably -- where accusations have been made, all of those income tax returns are being looked at to see, as best one can determine, whether there's anything special about them. All that is being done in this investigation. And I will wait until the investigation is over, but I believe, from what I know of it, that the IRS is going to look very good when it's over.

SCHOUMACHER: On the Secret Service, do you feel that perhaps the Secret Service was improperly used when it was instructed to make those tape recordings and bug those phones?

SECRETARY SHULTZ: Well, I think a President has a right to arrange his office as he wants. I don't think the Secret Service was improperly used in installing the electronic devices there. I don't think the Secret Service as such is in question in that.

295

SCHOUMACHER: Over the past year or so, Mr. Shultz, did the President ever express to you any impatience that he was asking questions and not getting answers on this whole area of Watergate?

SECRETARY SHULTZ: No. He wouldn't talk to me about that kind of thing anyway.

SCHOUMACHER: Did you -- have you ever had discussions with him about what the Watergate affair was doing, let's say, to the dollar overseas. I mean, have you talked about the impact with him on this?

SECRETARY SHULTZ: I've talked with him once about my views, very -- quite sometime ago, and particularly emphasizing what seems to me to be the central point, and I think the President agrees with this. In fact, I'm sure he does. First, let the investigation go forward and go forward as rapidly as possible and find whatever there is and deal with it. And, second, and most important -- and I think this is something we just have to come to with greater and greater force -- to concentrate on doing the job that needs to be done in the government, in the country, the things that people are really concerned about, not that they aren't concerned about the Watergate business, but they're concerned about inflation, they're concerned about many things. We have lots of problems, and let's get on with the business of solving those problems. And that's what I emphasize and what I know the President continually emphasizes to me.

KAPLOW: Mr. Secretary, on one of these problems, the international instability of the dollar, do you have any new moves you're going to recommend in that area?

SECRETARY SHULTZ: Well, our position has been getting stronger and healthier. Our position in international trade has more or less righted itself in the sense that where we were running big deficits last year each quarter, the most recent quarter, we've had a balance in our trade, so we are getting somewhere on that score.

KAPLOW: Are you going to do anything more?

SECRETARY SHULTZ: And the exchange value of the dollar has been rising with respect to the European currencies where it fell. Of course, it isn't realized that with respect to Japan, Canada, Britain, Italy, most of the developing countries, which all together account for something like 75% of our trade, the dollar, since last spring, has not deteriorated. It's remained about the same.

SCHOUMACHER: And I believe that that would be a fine

2 96

point at which to end. Thank you very much, Secretary Shultz for being our guest today on Issues & Answers.

SECRETARY SHULTZ: It's a pleasure to be here.

297

to Treasury Officials

room ______ date 8/6/73

Department of the Treasury

Office of Public Affairs

F.Y.I.:

Attached is the transcript of an interview with Secretary Shultz, published today in the NIHON KEIZAI SHIMBUN, Japan's leading financial daily.

Special Consultant to the Secretary (Public Affairs)
Joseph A. Loftus

room 2324
ext. 5252

298

Q. How do you evaluate the results of the C-20 ministerial meeting? Do you think the meeting increased the possibility of reaching an agreement on principles of monetary reforms in Nairobi?

A. The meeting was very constructive in its spirit and tone. As to its content, there was progress on a number of points. There was exhibited at the meeting a sense of determination on the part of the people present to work together to try to resolve problems. So I thought, on the whole, it was quite an encouraging meeting.

Q. Do you think that the timetable to reach an outline agreement in Nairobi and final decision next spring is realistic?

A. I think that there is a possibility. I would regard the Nairobi meeting as a kind of collection point where the results of this present meeting and the meeting of the Deputies that will take place shortly, will consolidate. The Nairobi meeting will reveal this. I presume we will have a ministerial meeting sometime late this fall to try to make further progress. We have to do this if we are to agree on basic principles by spring. Everyone recognizes that the situation cannot go on forever as it is.

Q. Another Ministerial Meeting late this fall before the one next spring?

A. What the schedule actually will be I don't know, and I don't want to overstructure. We had a meeting here that was constructive, and we will have a Deputies Meeting in Paris

299

before long at which Deputies will try to consolidate the ground that was gained here. In Nairobi, we will have only a day for C-20 on Sunday before the IMF Meeting and that isn't a lot of time. The meeting will be a review of what the Deputies will have accomplished to see if the results can be the basis of an agreement. If we are to have a final agreement and a full set of principles in the spring as Giscard d'Estaing has said, we are certainly going to need another meeting of C-20 that is a lot longer than the Nairobi meeting. That would be a meeting after Nairobi and before the spring meeting, but I don't want to overdo the business of what meetings are scheduled. The question is how the work will go and I would rather let the flow of work determine the flow of meetings rather than the other way around.

Q. How do you evaluate the recent developments in the world money markets and their impacts on monetary reform? In some quarters it has been noted that the United States is quite satisfied with the status quo, the system of float and is not very motivated to speed up negotiations. Could yo comment on this?

A. We are not satisfied with the current status of the monetary system. We think that floating arrangements are a good system to use for the time being, but we think that a better understood system is desirable. We, of course, have been working hard for a year now. We made an extensive proposal at the last IMF Meeting and we have given support to these proposals with technical papers in the Committee of 20.

302

We have worked hard and consistently for the objective of long-term monetary reform. We have done so this week and will continue to do so.

Q. What would you think was the real reason for significant progress at this meeting?

A. I think the reasons were, first of all, that the ground had been well laid and the issues well set up by the Deputies so that the discussions could focus on the substantive issues. Consequently, we were able to have a meeting without the necessity for having a communique. It is amazing the difficulties a communique poses with respect to having a good discussion in the meeting. Everyone concentrates on the communique and the nuances of this word or that word, instead of trying to reach a meeting of the minds on the substance of the issues. So, by not having to worry about writing a communique, we were able to spend our time on the issues. It helped. Beyond that, I think the environment helped, in two senses. First, there was no immediate crisis in the exchange market, and the floating system was basically handling a fairly difficult situation rather well. On the whole, there was no immediate crisis that consumed our time as in some past meetings. At the same time, there was a sense that we can do better than the present situation and that it is important to do just that. In other words, there was a widespread lack of satisfaction with the existing situation,

301

and this led people to feel that we really ought to try to get the reform job done.

Q. Do you think Europeans were fearful of another crisis and did this fear help to move negotiations?

A. No. Of course, they have a so-called snake that they are trying to maintain, and the snake was placed under pressure by the difficulties that everyone was having in working out the problem of inflation. There has been a great dispersion in interest rates among European countries that caused the exchange rate shift that put pressure on the snake, but I don't think there was any feeling of crisis.

Q. It seems that a general consensus has been reached to eventually demonetize gold and to emphasize the role of SDRs as a reserve asset. Is it possible that the sales of official gold in the private market will be agreed upon in the near future?

A. The question of gold and its role, and the conditions under which it can be bought and sold, is related to the agreement among central bankers. The subject has come up for discussion from time to time as a part of the long-term reform. This will certainly be dealt with as part of the agreement. Whether or not there will be some action before then remains to be seen.

Q. Would these countries agree to do away with the official price of gold?

A. There are varieties of options as to how to handle this and you can think of five or six very easily, but there has

302

not been any decision on that.

Q. Any specific proposals on this issue?

A. Proposals were made as a part of a set of issues that were discussed at the C-20 meeting this week. There is a problem of the adjustment mechanism; the problem of discipline; the problem of convertibility; and the problem of numeraire, SDR or gold. In one way or another, we have to come to an agreement on how to handle gold. There were various possibilities discussed. I might say Mr. Aichi got the biggest hand of anybody at the meeting when he suggested we think of a better name for SDR. I think that made an impression on everybody although no one came up with a good name.

Q. Any idea for a new name?

A. No. There are various possibilities but no good name came immediately to the fore.

Q. What is the U.S. position on the question of gold?

A. We have taken a position that the role of gold in the monetary system should diminish and that is what we think the objective should be. As to specific ways to attain the objective, we are ready to talk about any of the suggestions.

Q. Some have argued that the system of float has aggravated the world inflationary pressure in recent months. What is your view on the relationship between inflation and the exchange rate system?

303

A. I do not think the float has aggravated the inflation problem. The float has turned out to be a pretty good device for letting the pressures in the system dissipate themselves without causing crises. My understanding is, for example, that in Japan the float has not caused any particular problems, and on the whole is regarded as a reasonable operation. We regard it as such with respect to the yen, looking at it from the other side of the yen-dollar problem. So I think the problem of inflation is related to the imbalance of supply and demand in many basic commodities especially in food commodities. All over the world they are rising rapidly in price. The fundamental imbalance of supply and demand is what is causing the problem. All the economies of the world are rising strongly at the same time.

Q. Minister Giscard d'Estaing of France recently implied that France would not participate in trade discussions unless some visible progress is made on monetary reforms. What is the U.S. view on the relationship between trade and monetary reform negotiations?

A. We have consistently held the view that trade arrangements and monetary arrangements are related to each other. We had a hard time persuading others. So I welcome the statement that there is a relationship between these two matters. I think that monetary reform in terms of its timetable is well ahead of trade reform, at least to the extent that GATT negotiations start in Tokyo in September and no one is expecting that they will be completed before two or three years.

304

However, we have made a lot of headway in monetary reform; and certainly by the end of next year we expect to see that work essentially completed.

Q. Could we take your statement as the softening of the U.S. position to link the two negotiations?

A. The U.S. view has been that trade matters and monetary matters are related to each other. We had quite an argument on that. People resisted that idea. You mentioned Mr. Giscard d'Estaing now insisted that it is so. We welcome that. That is what we thought all along. What the content of these negotiations would be remains to be seen, but we believe that they are related. As one thinks about IMF and its structure, somehow or other there should be a way worked out for the IMF to have stronger ties with the GATT.

Q. Do you still consider surcharge as an instrument to sanction surplus countries?

A. We believe there needs to be symmetry in the system of adjustment in the exchange rate, in other words, when there is an out-of-balance situation, there needs to be symmetry in pressures to bring about a balance. I believe that this point is well accepted by everyone. The question then arises as to how you get symmetry of pressures. A way to get pressure on a deficit country is to insist on convertibility, but that does not create any pressures on the surplus country. So we have suggested various means of doing that. One is the

306

use of indicators in terms of reserve levels that give some strength to the views that the adjustment is necessary. The possibility, and we have listed this as a last resort possibility, of imposing a surcharge on a surplus country may be a necessary sanction. We do not think it is desirable but in some situations it would be useful even if it were never used. Mr. Giscard d'Estaing suggested another one, which I thought was an interesting idea, namely that if a country accumulated reserves as a result of surplus, above a certain point, then those reserves should carry a negative rate of interest. In other words, they would be undesirable to hold. And that is a kind of automatic sanction, a little bit like the convertibility sanction on the other side. That was one of the outstanding things about this meeting. There was greater agreement on the need for symmetry and on the importance of putting backbone into the adjustment process. A number of ideas were put forward about that.

Q. What is the U.S. position on the negative interest rate?

A. I think it is an interesting idea. We should explore that. This is one of the things we are working on.

Q. What is your prospect on the Phase IV programs and anti-inflationary policies in general? Is there a possibility of overkill?

A. Our policy, first of all, is the disciplined budget, and we have been getting the budget under better and better control.

306

We are determined to get to a balance within this fiscal year. Second are policies designed to increase the supply of scarce things. We are producing much larger crops this year than last year. The crop that both of us are interested in is soybeans, and we expect the soybean crop to be a fourth larger than last year's. We are going all out to produce the supply of needed goods. That is a very important part of this whole process. We recognize, as others do, that we are a part of the world economy and the inflation we have is connected with the inflation that everybody else has because it stems importantly from increases in price in commodities in international trade. We try to work at this problem cooperatively with our trading partners. Then we have the wage and price controls. We are trying to get as much usefulness as we can from them, recognizing that they really don't do much for you in so far as the prices of internationally traded commodities are concerned. They are not addressed to that problem. We are trying to use them responsibly and also to avoid using them in such a way as to reduce supply. That is a big problem with price controls.

Q. Do you then foresee no export controls in the future?

A. We expect and hope that there will not be any further export controls. We are trying to avoid that by increasing supplies and by working with our trading partners to get a better idea about their needs and the crop production around the world. We believe there is a reasonable prospect that this can be done.

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

367

ATTENTION: FINANCIAL EDITOR

August 6, 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 May 10, 1973, and the other series to be dated August 9, 1973, which were invited on July 31, 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 November 8, 1973		:	182-day Treasury bills maturing February 7, 1974	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	97.890 a/	8.347%	:	95.684 b/	8.537%
Low	97.830	8.585%	:	95.608	8.687%
Average	97.855	8.486% 1/	:	95.627	8.650% 1/

a/ Excepting one tender of $10,000; b/ Excepting five tenders totaling $85,000
49% of the amount of 91-day bills bid for at the low price was accepted
41% of the amount of 182-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 33,580,000	$ 23,580,000	:	$ 22,825,000	$ 12,825,000
New York	2,810,150,000	1,966,600,000	:	2,505,410,000	1,384,510,000
Philadelphia	23,900,000	23,900,000	:	11,445,000	11,445,000
Cleveland	34,645,000	34,645,000	:	54,600,000	34,600,000
Richmond	35,565,000	35,565,000	:	21,890,000	21,890,000
Atlanta	20,900,000	20,900,000	:	21,500,000	21,300,000
Chicago	185,115,000	122,075,000	:	156,545,000	73,645,000
St. Louis	40,705,000	39,195,000	:	73,300,000	60,800,000
Minneapolis	30,985,000	30,985,000	:	23,045,000	19,045,000
Kansas City	37,290,000	36,290,000	:	34,320,000	29,320,000
Dallas	43,340,000	42,830,000	:	39,920,000	31,420,000
San Francisco	124,965,000	123,455,000	:	144,360,000	99,360,000
TOTALS	$3,421,140,000	$2,500,020,000 c/		$3,109,160,000	$1,800,160,000 d/

c/ Includes $325,685,000 noncompetitive tenders accepted at the average price of 97.855
d/ Includes $247,135,000 noncompetitive tenders accepted at the average price of 95.627
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 8.79% for the 91-day bills, and 9.17% for the 182-day bills.

308

91 | 182

Last
8.320 week 8.476

To-
8.486 day 8.650

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

309

FOR IMMEDIATE RELEASE August 7, 1973

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $4,300,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing August 16, 1973, in the amount of $4,303,570,000 as follows:

91-day bills (to maturity date) to be issued August 16, 1973, in the amount of $2,500,000,000, or thereabouts, representing an additional amount of bills dated May 17, 1973, and to mature November 15, 1973 (CUSIP No. 912793 SD9), originally issued in the amount of $1,692,665,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,800,000,000, or thereabouts, to be dated August 16, 1973, and to mature February 14, 1974 (CUSIP No. 912793 SY3).

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, August 13, 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 August 16, 1973, in cash or other immediately available funds or in a like face amount of Treasury bills maturing August 16, 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.

310

UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH July 31, 1973

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

DESCRIPTION	AMOUNT ISSUED 1/	AMOUNT REDEEMED 1/	AMOUNT OUTSTANDING 2/	% OUTSTANDING OF AMOUNT ISSUED
MATURED				
Series A-1935 thru D-1941	5,003	4,999	4	.08
Series F and G-1941 thru 1952	29,521	29,499	22	.07
Series J and K-1952 thru 1957	3,754	3,746	7	.19
UNMATURED				
Series E 3/ :				
1941	1,925	1,739	186	9.66
1942	8,493	7,662	831	9.78
1943	13,650	12,340	1,310	9.60
1944	15,933	14,330	1,603	10.06
1945	12,547	11,142	1,405	11.20
1946	5,722	4,928	794	13.88
1947	5,456	4,568	888	16.28
1948	5,657	4,661	997	17.62
1949	5,615	4,548	1,066	18.98
1950	4,928	3,939	989	20.07
1951	4,263	3,407	855	20.06
1952	4,468	3,549	920	20.59
1953	5,119	3,986	1,133	22.13
1954	5,219	4,010	1,208	23.15
1955	5,439	4,141	1,298	23.86
1956	5,259	3,971	1,288	24.49
1957	4,961	3,699	1,262	25.44
1958	4,856	3,526	1,330	27.39
1959	4,558	3,273	1,285	28.19
1960	4,586	3,201	1,384	30.18
1961	4,677	3,145	1,532	32.76
1962	4,552	2,977	1,574	34.58
1963	5,118	3,149	1,969	38.47
1964	4,987	3,077	1,910	38.30
1965	4,881	2,973	1,908	39.09
1966	5,261	3,069	2,193	41.68
1967	5,183	3,013	2,170	41.87
1968	4,923	2,809	2,114	42.94
1969	4,632	2,538	2,094	45.21
1970	4,849	2,345	2,504	51.64
1971	5,581	2,252	3,329	59.65
1972	6,140	1,839	4,301	70.05
1973	2,736	320	2,417	88.34
Unclassified	390	411	(21)	(5.38)
Total Series E	192,563	140,539	52,024	27.02
Series H (1952 thru May, 1959) 3/	5,485	3,983	1,502	27.38
H (June, 1959 thru 1973)	9,174	3,049	6,126	66.78
Total Series H	14,659	7,032	7,628	52.04
Total Series E and H	207,223	147,571	59,652	28.79
All Series: Total matured	38,278	38,244	33	.09
All Series: Total unmatured	207,223	147,571	59,652	28.79
All Series: Grand Total	245,501	185,815	59,685	24.31

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

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

311

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

RESULTS OF TREASURY'S OFFER OF $2 BILLION OF SEPTEMBER TAX BILLS

The Treasury Department announced that the tenders for $2,000,000,000, or thereabouts, of 35-day Treasury Tax Anticipation bills to be dated August 15, 1973, and to mature September 19, 1973, which were offered on July 25, 1973, were opened at the Federal Reserve Banks today.

The details of this issue are as follows:

Total applied for - $3,879,675,000
Total accepted - $2,000,225,000 (includes $142,075,000 entered on a noncompetitive basis and accepted in full at the average price shown below)

Range of accepted competitive bids:

High	-	99.091	Equivalent rate of discount approx. 9.350% per annum
Low	-	99.022	Equivalent rate of discount approx. 10.059% per annum
Average	-	99.047	Equivalent rate of discount approx. 9.802% per annum 1/

(47% of the amount bid for at the low price was accepted)

Federal Reserve District	Total Applied For	Total Accepted
Boston	$ 181,545,000	$ 116,045,000
New York	2,078,900,000	627,400,000
Philadelphia	132,700,000	92,400,000
Cleveland	160,100,000	75,100,000
Richmond	20,745,000	20,745,000
Atlanta	44,770,000	19,270,000
Chicago	588,310,000	482,810,000
St. Louis	19,900,000	15,250,000
Minneapolis	209,950,000	209,950,000
Kansas City	68,640,000	67,140,000
Dallas	2,655,000	2,655,000
San Francisco	371,460,000	271,460,000
Total	$3,879,675,000	$2,000,225,000

1/ This is on a bank discount basis. The equivalent coupon issue yield is 10.03%.

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

312

FOR IMMEDIATE RELEASE August 9, 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 discontinuance. These decisions will appear in the Federal Register of August 10, 1973.

In the first case, Assistant Secretary Morgan announced that the Treasury is withholding appraisement on metal punching machines from Japan. These machines are used primarily for punching round and shaped holes in metals of various thicknesses and producing duplication of sizes. 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 October 1972, imports of metal punching machines from Japan totaled approximately $106,000.

In the second case, Treasury announced its intent to discontinue the antidumping investigation with respect to upholstery spring wire from Japan. Formal assurances have been received from the manufacturers that they have terminated sales to the United States, and that sales shall not be resumed. The notice of intent to discontinue the investigation is based on these assurances. During calendar year 1972, imports of upholstery spring wire from Japan were valued at roughly $6 million.

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

313

FOR IMMEDIATE RELEASE August 10, 1973

TREASURER OF U.S. TO ACCEPT
$1,000,000 CHECK TO U.S.

On behalf of the United States Government, the Treasurer of the United States, Romana Acosta Banuelos, will accept a check for over $1,000,000 today in Orlando, Florida.

The check, payable to the Treasurer, is a bequest to the United States of America by the late Robert Hunter McIntosh of Winter Park, Florida, who died at the age of 72, on April 16, 1972.

Mr. McIntosh stipulated in his will that after taxes and funeral expenses were paid, his estate be totally liquidated and the proceeds given to the United States of America "in appreciation for my country."

Pursuant to the final settlement of his estate and circuit court approval, the executor of the estate, the Sun First National Bank of Orlando, will turn over the check to Mrs. Banuelos at a brief luncheon ceremony at 12:30 p.m. today at the Citrus Club in Orlando.

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Like other bequests to the Government, the $1 million will become part of the general funds of the Government. It is the largest such bequest in recent years.

Mr. McIntosh noted in his will that he is survived only by distant relatives "with ample assets of their own." He died in a rooming house in Winter Haven after amassing a small fortune in securities trading, and was buried in his family plot at Union Dale Cemetery in Pittsburgh.

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

314

FOR IMMEDIATE RELEASE August 9, 1973

ERNEST S. CHRISTIAN, JR., PROMOTED TO
TAX LEGISLATIVE COUNSEL AT TREASURY

Secretary of the Treasury George P. Shultz today announced the appointment of Ernest S. Christian, Jr., of Austin, Texas, as Tax Legislative Counsel.

Mr. Christian, 36, has been Tax Counsel to the Assistant Secretary for Tax Policy since June 1972, and prior to that Attorney-Advisor in the Office of Tax Legislative Counsel since November 1970, his first government post.

Prior to joining Treasury, Mr. Christian had engaged in the private practice of law in Washington, D. C., and Dallas, Texas.

Promotion to Tax Legislative Counsel places Mr. Christian in charge of the staff of lawyers and accountants who make up one of the two major units under Assistant Secretary for Tax Policy Frederic W. Hickman. The other major unit is the Office of Tax Analysis, a staff of economists.

S-263 OVER

A cum laude graduate of the University of Texas Law School in 1961, Mr. Christian was Casenote Editor of the Texas Law Review.

Mr. Christian holds memberships in the Texas, District of Columbia, and American Bar Associations. He and his family reside in the District of Columbia.

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Department of the TREASURY NEWS
OFFICE OF REVENUE SHARING
WASHINGTON, D.C. 20226
Telephone 634-5163

315

FOR INFORMATION CALL (202) 634-5248

FOR RELEASE FRIDAY A.M., AUGUST 10, 1973

ANALYSIS OF REVENUE SHARING
PAYMENTS TO DATE

More than eight billion dollars has been paid to state and local governments under the new general revenue sharing program since December, 1972, according to a report issued today by the Treasury Department's Office of Revenue Sharing.

The first summary of all payments to date of general revenue sharing funds by type of recipient was released by Graham W. Watt, Director of the Office of Revenue Sharing.

In describing the report, Mr. Watt said that one third of all shared revenues go directly to state governments. The remainder is divided among local units of government. "As of today", Watt said, "36% has gone to cities and towns, 25% to counties, 5% to townships and 1.2% to Indian tribes and Alaskan native villages. A total of $8.131 billion has been distributed to more than 38,000 units of government since the first checks were mailed, in December of 1972."

Funds are allocated according to a formula that automatically relates data on population, tax effort and per capita income. The formula is set out in the State and Local Fiscal Assistance Act of 1972, signed by President Nixon in October of 1972.

The largest amounts of money to go to state governments are:

New York - $301 million

California - $288.5 million

Pennsylvania - $141.8 million

Illinois - $139.6 million

Texas - $127.7 million

Michigan - $114.8 million

Ohio - $108.5 million

Counties in California and New York received $347.1 million and $138.0 million, respectively.

Cities and towns in New York have received $400 million and California cities and towns $229.6 million. Illinois cities and towns rank third with $178.7 million. Next come Texas municipalities with $161.2 million; Pennsylvania, $159.2 million; Michigan, $140.4 million; and Ohio, $128 million.

Townships are only found in 21 states. Of these, townships in Massachusetts have received $64.1 million, more than any other state.

Thirty of the fifty states include native villages and Indian tribes. Indians in Arizona have received $2.4 million through the revenue sharing program thus far. New Mexico tribes have received $2.2 million.

3/4

When payments to all units of government in all states are combined, it can be determined that governments in the state of New York have received the most revenue sharing money, $903.3 million. California's total is next highest, $865.4 million.

When the five-year revenue sharing program has been completed, $30.2 billion will have been returned to state and local units of government by the Office of Revenue Sharing of the U.S. Treasury Department.

The Office of Revenue Sharing was established by Secretary of the Treasury George P. Shultz shortly after the State and Local Fiscal Assistance Act was signed into law last fall. Approximately 40 people, professional and clerical, administer the $30.2 billion program for the Federal government.

Attachment

GENERAL REVENUE SHARING PAYMENTS
THROUGH AUGUST 10, 1973

	STATE	COUNTIES	CITIES & TOWNS	TOWNSHIPS	INDIANS & ALASKAN NATIVES	TOTALS
ALABAMA	46,194,995	35,352,212	56,932,115			138,529,232
ALASKA	3,435,402	2,319,431	4,079,290		229,756	10,063,939
ARIZONA	26,324,154	21,134,051	28,746,703		2,441,633	78,647,141
ARKANSAS	30,642,565	30,273,487	22,795,419			83,711,471
CALIFORNIA	288,514,943	347,060,238	229,600,512		185,013	865,360,706
COLORADO	28,091,879	19,920,948	30,190,397		55,167	84,204,991
CONNECTICUT	34,173,570		36,649,340	31,683,497		102,505,997
DELAWARE	9,917,347	8,298,378	6,215,705			24,431,430
DIST OF COLUMBIA	36,662,977					36,662,977
FLORIDA	76,169,722	65,941,606	86,241,651		27,595	228,380,564
GEORGIA	56,090,778	65,423,109	46,645,222			168,159,109
HAWAII	12,066,177	5,811,937	18,320,417			36,198,531
IDAHO	11,012,232	12,586,520	9,293,122		120,647	33,012,521
ILLINOIS	139,351,113	64,460,975	178,737,526	35,191,492		417,741,106
INDIANA	57,993,407	39,103,035	65,140,561	11,775,404		174,012,407
IOWA	38,510,822	44,742,882	32,258,290		18,075	115,530,075
KANSAS	26,592,415	27,023,369	23,011,252	3,018,653	10,780	79,656,369
KENTUCKY	55,068,322	34,898,473	43,497,379			133,464,174
LOUISIANA	63,995,369	49,656,293	73,909,366		9,177	187,570,205
MAINE	15,921,182	1,954,117	13,033,729	16,901,611	66,138	47,776,777
MARYLAND	54,241,928	60,492,935	47,991,126			162,725,989
MASSACHUSETTS	84,948,949	10,073,553	95,686,514	64,138,201		254,847,217
MICHIGAN	114,809,534	66,208,761	140,350,957	23,013,431	40,649	344,423,332
MINNESOTA	53,830,754	57,092,431	43,122,711	7,010,147	324,510	161,380,553
MISSISSIPPI	46,194,340	57,086,253	32,107,755		73,794	135,462,143
MISSOURI	50,361,441	34,311,730	63,505,025	2,543,200		150,721,396
MONTANA	10,510,691	13,930,092	6,259,966		738,241	31,438,990
NEBRASKA	19,871,318	19,662,903	18,716,305	1,310,371	81,256	59,642,153
NEVADA	5,925,127	7,335,433	4,415,595		93,735	17,769,891
NEW HAMPSHIRE	8,537,237	2,151,490	7,678,414	7,244,002		25,611,143
NEW JERSEY	84,993,031	62,330,327	75,798,276	31,833,393		254,955,027
NEW MÉXICO	17,789,284	14,128,722	16,741,069		2,152,108	50,811,783
NEW YORK	301,980,037	138,043,367	399,934,583	63,999,079	169,390	903,236,516
NORTH CAROLINA	69,502,154	73,939,509	64,947,793		158,996	208,548,452
NORTH DAKOTA	11,322,219	11,574,361	7,559,346	3,013,094	472,549	33,942,069
OHIO	108,465,937	67,380,002	127,984,878	21,558,756		325,389,573
OKLAHOMA	30,152,583	23,375,040	36,713,432		509,154	90,750,319
OREGON	26,882,116	19,893,390	33,766,770		91,134	80,633,410
PENNSYLVANIA	141,768,411	80,494,776	159,216,382	43,882,408	158	425,350,135
RHODE ISLAND	12,300,422		17,935,588	6,665,300		36,901,310
SOUTH CAROLINA	38,266,341	38,525,071	33,863,710			110,655,122
SOUTH DAKOTA	12,303,054	14,625,337	7,375,501	1,843,999	863,321	37,011,212
TENNESSEE	50,536,148	41,114,263	60,042,282			151,692,693
TEXAS	127,708,956	93,025,356	161,250,064		26,679	382,011,055
UTAH	15,853,192	15,667,073	15,735,084		241,475	47,496,824
VERMONT	7,563,017	194,647	5,131,630	9,750,900		22,640,194
VIRGINIA	53,914,690	39,276,476	68,555,032		2,205	161,748,403
WASHINGTON	39,608,768	35,364,250	43,394,669	3,366	307,172	118,678,225
WEST VIRGINIA	36,410,075	20,403,550	22,709,227			79,522,852
WISCONSIN	68,035,879	67,551,780	56,472,305	11,635,587	202,468	203,898,519
WYOMING	5,116,619	7,521,179	2,553,360		148,324	15,339,482
	2,765,536,593	2,068,716,878	2,888,932,153	397,920,881	9,861,299	8,131,027,804
Percentage Total	33%	25%	36%	5%	1.2%	

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

317

ATTENTION: FINANCIAL EDITOR August 13, 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 May 17, 1973, and the other series to be dated August 16, 1973, which were invited on August 7, 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 November 15, 1973		:	182-day Treasury bills maturing February 14, 1974	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	97.763 a/	8.850%	:	95.527 b/	8.848%
Low	97.720	9.020%	:	95.473	8.955%
Average	97.731	8.976% 1/	:	95.479	8.943% 1/

a/ Excepting 4 tenders totaling $170,000; b/ Excepting 2 tenders totaling $30,000
80% of the amount of 91-day bills bid for at the low price was accepted
91% of the amount of 182-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 32,165,000	$ 22,165,000	:	$ 24,095,000	$ 14,095,000
New York	3,131,590,000	2,085,590,000	:	2,901,460,000	1,479,040,000
Philadelphia	27,730,000	27,730,000	:	15,445,000	15,445,000
Cleveland	47,765,000	37,765,000	:	72,085,000	42,085,000
Richmond	33,870,000	25,470,000	:	20,450,000	20,450,000
Atlanta	18,975,000	18,975,000	:	17,675,000	17,675,000
Chicago	253,765,000	139,165,000	:	336,455,000	46,530,000
St. Louis	32,135,000	27,635,000	:	67,730,000	37,630,000
Minneapolis	14,360,000	14,360,000	:	13,780,000	5,780,000
Kansas City	35,930,000	30,930,000	:	31,885,000	26,685,000
Dallas	45,840,000	23,340,000	:	39,965,000	15,465,000
San Francisco	78,080,000	47,080,000	:	144,500,000	84,500,000
TOTALS	$3,752,205,000	$2,500,205,000 c/		$3,685,525,000	$1,805,380,000 d/

c/ Includes $338,720,000 noncompetitive tenders accepted at the average price of 97.731
d/ Includes $263,950,000 noncompetitive tenders accepted at the average price of 95.479
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 9.31% for the 91-day bills, and 9.50% for the 182-day bills.

Department of the TREASURY

318

182

91

Last

8.486 week 8.650

To-

8.976 day 8.943

Last time 91's
higher than 182's
was on 6/18/73
91 - 7.263
182 - 7.255

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

319

FOR IMMEDIATE RELEASE August 14, 1973

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $ 4,300,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing August 23, 1973, in the amount of $4,302,280,000 as follows:

92-day bills (to maturity date) to be issued August 23, 1973, in the amount of $2,500,000,000, or thereabouts, representing an additional amount of bills dated May 24, 1973, and to mature November 23, 1973 (CUSIP No. 912793 SE7) originally issued in the amount of $1,700,955,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,800,000,000, or thereabouts, to be dated August 23, 1973, and to mature February 21, 1974 (CUSIP No. 912793 SZ0).

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, August 20, 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 August 23, 1973, in cash or other immediately available funds or in a like face amount of Treasury bills maturing August 23, 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.

320

August 15, 1973

NOTE TO CORRESPONDENTS:

Attached is a letter sent by Jack F. Bennett, Deputy Under Secretary for Monetary Affairs, to Senator Harry F. Byrd, Jr. on July 20, 1973 concerning capital flows, as reported by Ed Dale in today's New York Times.

324

7/20/73

Dear Senator Byrd:

During my appearance before your Sub-committee on International Finance and Resources on June 5 I was asked to provide more information on capital flows from the United States during the first quarter of this year when we were further along in our statistical studies of that period. Further work remains to be done, but the members of the committee may find of interest a report on the information we now have.

As indicated in the summary table below and in more detail in the table attached, a net outflow of $5,780 million in recorded private capital transactions was a major contributor to the official deficit in that period. Moreover, errors and omissions - which were probably largely capital flows - contributed another $3,650 million to the deficit.

US Balance of Payments
Not Seasonally Adjusted
(Millions of Dollars)

	1st Quarter 1973
Current transactions excluding income on direct investments, net	-2,280
Income on direct investments, net	2,200
Government Capital flow	-450
Private capital flows	-5,780
Errors and omissions	-3,650
Official reserve transactions balance	-9,960

322

(The data in the table are derived primarily from those published by the Department of Commerce in the June 1973 issue of the Survey of Current Business. However, the data for those corporate capital transactions which are not related to direct investments have been revised to include statistical information that is collected by the Treasury but was not available in time to be used in the Department of Commerce compilations. The data on these corporate transactions will be published on a country by country basis in the August issue of the Treasury Bulletin. Further revisions of the data for the first quarter will be published by the Department of Commerce in the September 1973 issue of the Survey of Current Business.)

The breakdown of the recorded private capital transactions in the first quarter is given in the following summary table. (More detail is provided in an attachment.) It can be seen in the first column that bank transactions reflected the largest part of the outflows. Net corporate outflows were large, but not greatly different from the comparable period a year earlier, while securities portfolio transactions made a substantial and increasing positive contribution to the payments balance.

Private Capital Transactions in the US Balance of Payments
Not Seasonally Adjusted
(Millions of Dollars)

	1st Quarter 1973	Change From 1st Quarter 1972	Change From 4th Quarter 1972
Transactions of agencies & branches of foreign banks in the US	-2,250	-2,350	-1,970
Transactions of US banks in the US	-2,330	-2,050	-2,330
Subtotal, bank transactions	-4,580	-4,400	-4,300
US direct investment abroad	-2,540	-850	-2,280
Foreign direct investment in the US	250	610	90
Other corporate transactions	-260	-260	-940
Subtotal, corporate transactions	-2,550	-500	-3,130
Transactions in securities & brokers funds	1,350	1,080	190
Total private capital	-5,780	-3,820	-7,240

323

Within the banking category the table indicates that the net outflow in the first quarter was about evenly split between transactions by US banks in the United States and transactions by branches and agencies of foreign banks in the United States. The US banks in the United States are cooperating in limiting outflows of their funds on the basis of a specific set of guidelines agreed with the Federal Reserve, and the US branches and agencies of foreign banks have been requested to abide by the spirit of the same guidelines. On July 19 the Board amended its guidelines to make them as specific for these agencies and branches as those applying to US banks. Such guidelines do not, however, apply to export credit and do not restrain the outflow of foreign funds deposited in the United States. In the short run, moreover, the guidelines may be exceeded when there is a sudden concentrated call by foreign borrowers on their existing unused credit lines. All of these special factors were probably present in the banking flows of the first quarter.

Within the corporate category, the principal outflow resulted from net transfers to US direct investment operations abroad. These outflows of $2,540 million were large in absolute terms. However, in recent years direct investment outflows have normally been high in the first quarter, presumably as a result of incentives created by the working of the controls administered by the Office of Foreign Direct Investment. The increase in 1973 from a year earlier was thus significant, but not the principal "swing" item as compared to the banking flows.

During the first quarter of this year there was also an outflow of $260 million in other corporate capital outflows, for example through deposits in foreign banks, repayment of foreign borrowings, and credit on trade transactions with unaffiliated foreign enterprise.

In all probability some direct investment and other corporate outflows in the first quarter were caused - or accelerated - by the widespread expectation of exchange rate changes at times during the quarter. Nevertheless, the

.324

excess of all these outflows during that period over the same period in the previous year of $1.1 billion suggests that the US corporate reaction to the expected exchange rate changes was not the major component of the flows which led to the worsening of the US payments balance in that period. And during the same period, despite the exchange rate expectations, there was an increase in foreign direct investment in the United States.

During the first quarter portfolio transactions also strengthened the US payments position, and the major component of these flows was foreign purchases of US securities.

In order to gain as complete coverage as possible of corporate capital flows during the first quarter letters were sent by the Secretary of Commerce and the Secretary of Treasury to the chief executive officers of 1,600 US corporations to request their personal attention to their reports to the Government for this period. In addition, visits have been made by a team of experts from Commerce, the Federal Reserve, and the Treasury to a number of representative companies to review procedures in detail. These reviews have uncovered some omissions from previous reports, but probably not in a magnitude to alter the trends revealed by the reported figures. Under the circumstances we are led to the conclusion that the bulk of the unreported transactions revealed by the errors and omissions of $3,650 million in the first quarter were undertaken by US residents other than the major US business corporations, which are well covered by the present statistical reporting system.

I hope this information will be of value to your Committee.

Sincerely yours,

signed

Jack F. Bennett

The Honorable
Harry F. Byrd, Jr.
United States Senate
Washington, D.C. 20510

Attachments - 2

Balance of Payments 1972 and First Quarter 1973
(millions of dollars)

	Not Seasonally Adjusted 1972					1973	Seasonally Adjusted 1972				1973
	Quarterly Average	I	II	III	IV	I*	I	II	III	IV	I*
Current Transactions excluding income on direct investments, net	-3909	-3431	-4052	-4965	-3192	-2279	-3989	-4042	-3717	-3889	-3015
Income on direct investments	1821	1578	1581	1632	2495	2198	1646	1678	1824	2138	2265
Government Capital	-335	-393	-219	-313	-414	-446	-289	-95	-366	-586	[illegible]
Private Capital	439	-1959	2977	-723	1459	-5778	-1966	2372	-816	2166	-5773
Errors & Omissions	-778	989	-1029	-1221	-1851	-3656	944	-940	-1626	-1490	-3623
Official Reserve Transactions Balance	-2762	-3216	-741	-5590	-1503	-9961	-3654	-1029	-4701	-1661	-10502

* Preliminary

325

PRIVATE CAPITAL TRANSACTIONS IN THE BALANCE OF PAYMENTS
1972 AND FIRST QUARTER 1973
(millions of dollars)

(Debits -)	Not Seasonally Adjusted 1972 Quarterly Average	I	II	III	IV	1973 I*	Seasonally Adjusted 1972 I	II	III	IV	1973 I*
U.S. Corporations											
Direct investment	-851	-1692	-398	-1058	-256	-2539	-1302	-183	-1148	-771	-2139
Other assets	-231	-247	-160	-198	-322	-725	-179	-118	-289	-341	-658
Liabilities	709	244	1071	523	998	465	289	1081	626	840	513
Total	-373	-1695	513	-733	420	-2799	-1192	780	-811	-272	-2284
Foreign direct investment in U.S.	40	-361	183	178	160	247	-361	185	178	160	247
Total corporate transactions	-333	-2056	696	-555	580	-2552	-1553	965	-633	-112	-2037
Banks											
U.S. assets, total	-876	-966	138	-724	-1954	-2896	-1401	106	-894	-1317	-3346
of which U.S. agencies and branches of foreign banks	(-475)	(-376)	(-126)	(-374)	(-1024)	(-1336)					
U.S. liabilities, total	1231	789	2272	189	1675	-1684	714	1430	344	2437	-1750
of which U.S. agencies and branches of foreign banks	(639)	(477)	(1206)	(130)	(743)	(-913)					
Net flow of funds	355	-177	2410	-535	-279	-4580	-687	1536	-550	1120	-5096
of which: U. S. agencies and branches of foreign banks	(164)	101	(1080)	(-244)	(-281)	(-2249)					
Securities:											
Foreign securities	-154	-437	-346	209	-40	47	-437	-346	209	-40	47
U.S. securities (excluding new issues by corporations)	578	762	190	181	1179	1324	762	190	181	1179	1324
Net	424	325	-156	390	1139	1371	325	-156	390	1139	1371
Brokers funds, net	-7	-51	27	-23	19	-17	-51	27	-23	19	-17
Total private capital	439	-1959	2977	-723	1459	-5778	-1966	2372	-816	2166	-5779

*Preliminary

327

August 16, 1973

The following statement was issued by Secretary Shultz last night, after President Nixon's television address to the Nation:

"The President has put the Watergate events into perspective and called upon us to right the wrongs done - to rededicate ourselves to the exercise of public trust in a legitimate and proper manner, and to get on with the essential business of government.

"Let us support the President and respond to this call with our hearts and minds and with pride in our great country."

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

328

FOR IMMEDIATE RELEASE August 16, 1973

TREASURY'S 52-WEEK BILL OFFERING

The Treasury Department, by this public notice, invites tenders for $1,800,000,000, or thereabouts, of 364-day Treasury bills for cash and in exchange for Treasury bills maturing August 28, 1973 , in the amount of $1,803,370,000. The bills of this series will be dated August 28, 1973 , and will mature August 27, 1974 (CUSIP No. 912793 TW6).

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 Daylight Saving time, Wednesday, August 22, 1973. Tenders will not be received at the Treasury Department, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

(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 August 28, 1973, in cash or other immediately available funds or in a like face amount of Treasury bills maturing August 28, 1973. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder must include in his income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

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

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

329

FOR IMMEDIATE RELEASE August 16, 1973

TREASURY SECRETARY SHULTZ NAMES HADLEY GRIFFIN SAVINGS BONDS CHAIRMAN FOR MISSOURI

W. L. Hadley Griffin, Chairman of the Board and President, Brown Group, Inc., is appointed volunteer State Chairman for the Savings Bonds Program in Missouri by Treasury Secretary George P. Shultz, effective immediately.

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

Griffin was born in Edwardsville, Ill. He attended Williams College, Williamstown, Mass., from which he received his AB degree in 1940. From 1941-1945, and again in 1951-1952, he served with the Navy, attaining the rank of lieutenant commander. After the end of World War Two, Griffin attended Washington University School of Law, St. Louis, earning an LLB degree in 1947.

Later that year, he joined the Wohl Shoe Company as counsel, rising to Assistant Secretary-Treasurer in 1950. In 1953, he was hired by the Brown Shoe Company, and was named a Director of the company in 1961. Griffin subsequently served the company as Vice President, Executive Vice President, and President and Chief Executive Officer before being named to his present position in 1972.

He is active in numerous business, professional, and civic organizations, including -- Director, Boatman's Bancshares, Inc.; Director, Owens-Corning Fiberglas Corp.; Trustee, Governmental Research Institute; Director, St. Louis Regional Commerce & Growth Association; President, Civic Progress; Director, St. Louis Symphony Society; Trustee, Washington University; Director, St. Luke's Hospital, and President, United Fund of Greater St. Louis.

Griffin is married to the former Phoebe Perry. They have three children -- Dustin H., II, L. Perry, and Peter B.

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WASHINGTON, D.C. 20220 TELEPHONE W04-2041

338

FOR IMMEDIATE RELEASE August 16, 1973

TRANSITION TO 52-WEEK TREASURY BILL CYCLE COMPLETED

The Treasury said today that, except for one open maturity date on July 30, 1974, the issue of 52-week Treasury bills to be auctioned Wednesday, August 22, 1973, completes the transition from a monthly cycle of one-year bills maturing on the last day of each month to a four-week cycle of 52-week bills maturing on every fourth Tuesday. The Treasury expects to issue the July maturity at some point in the future when appropriate in light of its overall financing needs.

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

331

FOR RELEASE ON DELIVERY

REMARKS OF DR. H. I. LIEBLING
DEPUTY DIRECTOR, OFFICE OF FINANCIAL ANALYSIS,
OFFICE OF THE SECRETARY, DEPARTMENT OF THE TREASURY,
AT THE 39TH ANNUAL MEETING
OF THE FLORIDA CREDIT UNION LEAGUE, INC.,
HOLLYWOOD, FLORIDA,
SATURDAY, AUGUST 18, 1973, 9:00 A.M.

THE ECONOMIC SCENE: SOME PROBLEMS AND PROSPECTS

Coming to Florida, for business or vacation, always brings a sense of relief from the everyday problems of Washington. These are also the everyday problems of New York, Chicago and the other metropolitan cities of this country, and, indeed, they are the problems of the Nation and the world. Here in Florida, one imagines that escape from those problems is possible because the physical charms of this state are so many -- and they tend to dissipate what had appeared to be critical urgencies thought to require early solutions to avoid real or imagined disasters of some sort.

But, of course, it would be superficial for anyone to imagine that Florida, or any state, could isolate itself from certain national or international problems. Florida cannot escape from the problems of the country or the world. I would not want to list all of the problems for you, but this audience would certainly know that money and credit flows are not deterred by geographical boundaries; that Florida is part of a national money and capital market; and,

S-264

indeed, that the turbulence in the international money and commodity markets have repercussions even here in beautiful Florida, as elsewhere.

Recently rising interest rates, viewed as costs to be paid by financial institutions or as earnings to be made, have been and are of concern everywhere -- not less so in Florida and not less so to credit unions such as yours which operate in Florida.

Indeed, yields of short-term securities have reached highs not seen in several decades; while long-term yields, which earlier had lagged in reaction to the new currents in the money markets, also have begun to move up. Mortgage rates have joined the parade of higher yields. The rate increases have been accompanied by a churning of deposits among financial intermediaries as they compete for the supply of available savings. The thrift institutions appear to be beginning to lose out in the struggle, as the July and early August figures show. If past experience were a guide, savings and loan institutions, mutual savings banks and credit unions will be affected by the swing in deposits from one institution to another and by direct investment in the money markets.

Against this background, concern has arisen whether the economy faces again the prospects of such tightening in financial markets that a scramble for credit will ensue; that some demanders of credit -- particularly builders and homebuyers, but also small businesses and consumers -- will go unsatisfied; and that repercussions of this, directly and indirectly, will eventually be felt in the nonfinancial world in terms of changes in production, employment and incomes.

That concern is well deserved. Properly, it directs attention to the degree of utilization of real resources that is optimal in our economy. By degree of utilization, I mean how much output the economy is producing, compared with its output at full capacity. The rise in the interest rates is directly connected with that degree of utilization; first, from the point of view of the demand for funds that it generates, and, secondly, from the viewpoint that the inflation which a nation experiences is directly reflected in the interest rates that suppliers of funds will require

332

before they lend them to others. Whatever the cause, inflation and high interest rates walk hand in hand.

Now, our present inflation does have some special features that do not fit within this framework -- notably, the world-wide boom which has generated a very large demand for international traded industrial materials, and the succession of crop failures and other natural disasters, which have generated very large farm and food price advances. That is one reason why the inflation rate has been so large this year -- running at an annual rate of 6 to 7 percent -- depending on which index measure is used.

But, the inflation would have been higher than what this nation would have liked to experience even without those special features. Whatever that rate would have been, with or without the special features -- the question arises: How did it all come about that inflation has become our Number One economic problem? Was it inevitable or was it the result of some grand error of economic policy? And, finally, being where we are, can we cure the inflation, without taking the medicine of recession? These are the issues that I would like to explore with you. And, may I emphasize, I will be giving my personal judgments as a professional career economist, rather than any official views.

How the inflation developed

Before the inflation accelerated, economic policy had scored a large success by putting into place the fiscal, monetary and price control programs of August 1971. Prior to that time, the economy had been operating with a certain degree of slack -- a condition from which it rapidly recovered in the fall and early winter of 1971 and throughout 1972. By the end of 1972, it appeared that we had secured all the blessings of good economic policy -- rapid economic growth, a declining unemployment rate and a reduced observed rate of inflation (though that was assisted by price controls).

Looking backward, we might remember that the success of this program -- certainly in terms of economic growth gains -- had much to do with the tax and other incentives provided to business and consumer spending. The tremendous energies of the private sector were unleashed and generated an expansion of historic proportions and long-livedness.

The price control programs of Phases I and II also were apparently successful in diminishing the rate of inflation. But, the precondition for the success in real growth acceleration and diminished inflation in the period between August 1971 and most of 1972 was the slack in the economy -- and some respite from international turbulences.

But that slack by the end of 1972 was less than had been thought in the commonplace computations of that day. Because of this under-valuation of the proportions of the slack -- partly attributable to gaps in our statistics and partly to a misunderstanding of them -- the desirable conditions of rapid economic growth and comparatively small advance in prices of 1972 were transformed into the tiger of inflation; and a specter emerged of reduced real growth in the period ahead which may be occasioned by efforts to control the inflation.

The diminished amount of slack left in the economy by the end of 1972 does not serve as the entire explanation for the inflation that ensued. That could be termed the "insufficient resource gap" factor which contributed to the inflation -- but it was only one factor. That alone might have been responsible for an inflation rate that was high but acceptable in some sense, as compared with the European "double number" rates of recent years.

A second factor of inflation was that arising from the bad luck of poor crops and other natural disasters on a world-wide basis. We can call that the "commodity inflation" factor.

And, finally, there was (and is) the factor of the coincidence of the world-wide boom with that in the U.S., which has generated world-wide demand for so many industrial raw materials, as well as finished products.

Amidst the current criticism of the U.S. efforts to control the current inflation, it is well to remember its world-wide roots. No single national effort to gain price stability could be entirely successful in the perspective of these world-wide pressures on prices. It was the conjuncture of the three major factors just noted that gave the inflation its unusual intensity in the United States. Critics might well remember that.

Hindsight on the Resource Gap factor

While bad luck on poor crops and the world-wide economic boom have magnified the inflation that the U.S. is experiencing, it does not provide a total explanation of its cause. Some diminished degree of inflation might have occurred anyway. It is that aspect which I would like to explore because it may recur again at some future critical juncture in economic policy-making. Fortunately, it concerns a factor which might plausibly be under management of national economic policy.

I noted earlier that the mistaken magnitude of the resource gap was a primary factor in making Phases I and II of the price control program so successful.

That resource gap of the economy was closing very rapidly toward the end of 1972, and reasonable forecasts for 1973 indicated further narrowing of the gap. The two major criteria for the size of the gap were the standard statistics of (1) the actual GNP as a percentage of potential GNP and (2) the unemployment rate. The GNP gap at the end of 1972, as it is measured, said that the economy was operating at 94½ percent of capacity -- and so it appeared that there was some leeway for further growth. The unemployment rate at the end of 1972 was a shade above 5 percent and this, too, indicated that further improvement could be made, and a goal of reducing it to 4½ percent by the end of 1973 was adopted.

With hindsight, it is clear that reliance on these two measures as a guide to policy was too restrictive a range of statistics to serve policy-makers very well. Of course, the Economic Report of the President in January 1973 had stated that the standards of computation of the GNP gap "are a less reliable guide to policy for the 1970s than they were for the 1960s." As I will show shortly, that surely was an accurate view, even if not fully heeded. The unemployment rate also lacks certain qualities as a measure of labor and other resource utilization. Before getting deeper into this matter, I should like to emphasize that the reliance placed on these two measures as guides to policy characterized economists of both major parties. The blame, if there is blame to place, of underestimation of the economy's ability to produce -- without additional inflationary pressure -- was a common misconception.

Some comparisons with other statistics show how the economy's potential to produce, as measured by the GNP gap, has been overstated. In 1955 and in 1965, actual output was at, or nearly at, its potential to produce -- measured as 100 percent. This compares with 94½ percent at mid-1973. This would appear to have left some idle resources.

But, compare this with some other relevant figures:

- The Wharton index of capacity utilization in manufacturing and mining was 95.0 percent in the second quarter of 1973, as compared with 90.5 percent in 1965 and 91.2 percent in 1955.

- The ratio of help-wanted advertisements to the unemployed was 87 in June 1973, compared with 76 in 1965 and 63 in 1955.

- The unemployment rate for married males was 2.1 percent, as compared with 2.4 percent in 1965 and 2.8 percent in 1955.

- The employed as a percent of the population was 57 percent, as compared with 55 percent in 1965 and 1955.

- The "quit rate" in manufacturing was 3.0 per hundred employees in June 1973, as compared with 2.2 in 1965 and 1.9 in 1955.

- Purchasing agents experiencing slower deliveries were 89 percent of the total reporting, compared with 67 percent in 1965 and 66 percent in 1955.

The conclusion seems inevitable that the pressure on resources in early 1973 was greater than could be reflected in any "gap" statistic or even that shown by the overall unemployment rate (which also carries important problems

334

of interpretation). If inflation accelerated during 1973, that pressure on resources was the fundamental cause, along with the world-wide commodity price explosion mentioned earlier, rather than any shift from one particular set of price controls to another.

What prospects ahead?

As the inflation accelerated for all the various reasons indicated earlier, it became increasingly clear that policy in 1973 should move more firmly toward restraint of the economy. Interest rates had already risen in reaction to the inflation and so the Federal Reserve needed to proceed in an orderly and progressive fashion in its program of restraint through successive steps of higher discount rates and increased reserve requirements. Yields would have increased much more and sooner unless this had been done. On the fiscal side, Federal outlays in FY 1973 were held down to $247 billion, below the $250 billion that had been expected, and thereby reducing the deficit to $14 billion, which compared with $25 billion projected last January.

Against this perspective of hardening policy, it would appear that the economy might again see a replay of the experience of earlier attempts at restraint. That scenario would include further advances in interest rates, increased disintermediation, and eventually the retardation on this account of expenditures on home construction, other consumer goods and of business fixed investment. In other words, very slow real growth or even recession might develop in efforts to curb the inflation.

I would remain optimistic that a "soft landing" of the economy -- a cooloff in real growth rates without recession -- is a reasonable prospect to hold at this time. By "soft landing," I mean cooloff to a sustainable real GNP growth path in the neighborhood of 4 percent -- it might go lower for a quarter or so -- but clearly distinguished from forecasts of a recession. There are strengths which were absent in earlier episodes. These would favor a movement of the economy toward more modest but still satisfactory rates of real growth rather than any serious convulsion. Among these factors are:

- An ongoing capital goods boom as an important bolster to economic growth. The broad array of figures relating to capital expenditures points to continuing high and rising outlays in the remainder of 1973, as well as in 1974. Furthermore, whatever does not get spent in 1973 due to capacity limitations could mean extra strength in 1974. A capital goods boom is rarely accompanied by a recession.

• The structure of production shows no signs of imbalance. Inventories have not been overbuilt and little or no adjustment would be required in production to obtain satisfactory inventory-sales ratios.

• Despite all the concern, there is little indication that rising prices have served as a deterrent to consumer spending. The 3 percent increase in July retail sales would seem to support that view. And, after all, the European experience does suggest that it is difficult to conclude that inflation always deters spending.

• The restraints imposed by the monetary authorities have been increasingly vigorous but considerable liquidity remains or can be found in the financial system. I would see little threat to the capital goods boom on this score, nor to consumer installment credit in general, although there is a possibility that the flow of funds to credit unions as in some earlier years of high interest rates might diminish.

However, the thrift institutions surely will be discomforted to some degree as interest rates rise. Housing activities may well be affected before long. But, S&Ls now have more flexibility in securing funds than in the past. That might provide a floor to whatever drop in housing starts that develops.

I do have one proviso regarding a "soft landing" because I do not underestimate the power of the monetary authorities. Chairman Burns has characterized an impending "credit crunch" as "loose talk" which he stated was "traceable to failure to appreciate the significance of what has been done to minimize the likelihood of any such event."

The cooloff in demand to the "soft landing" rates eventually should be accompanied by commensurate reduced demand for funds. If the inflation rate then can benefit from better harvests, both here and abroad, and a corresponding cooloff develops in the world-wide economic boom, interest rates would also diminish. That is an optimistic outcome, but certainly one that is possible.

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U. S. TREASURY DEPARTMENT

Topic: INTERNATIONAL MONETARY REFORM -- A LONG STEP FORWARD

Panelists: Jack F. Bennett, Deputy Under-Secretary for Monetary Affairs, the U.S. Treasury; John L. Caldwell, Director, The Center for International Business Relations, U.S. Chamber of Commerce; and Harry Ellis, Business & Financial Correspondent, Christian Science Monitor.

August 12, 1973

ANNOUNCER: Issues In The News.

[Theme music up, under]

ANNOUNCER: From Washington, the Voice of America brings you Issues In The News. In an unrehearsed discussion, American correspondents and guests give their opinions on developments in the news.

Today's topic: "International Monetary Reform -- A Long Step Forward."

The panelists are: Jack F. Bennett, Deputy Under-Secretary for Monetary Affairs, the U.S. Treasury; John L. Caldwell, Director, The Center for International Business Relations, the U.S. Chamber of Commerce; and Harry Ellis, Business and Financial Correspondent for the Christian Science Monitor.

Now to open the discussion here is Mr. Ellis.

HARRY ELLIS: In 1944 a new international monetary system, based on the dollar pegged to gold, was devised to handle trade and money flows among non-Communist nations. That system worked well so long as nations could count on a stable dollar against which to measure the value of their currencies. In the 1960s, however, as the United States began to spend more than it earned, billions of dollars flowed out of the U.S. Today that dollar overhang, that is, dollars held outside the United States, totals perhaps one hundred billion, far more than the eleven billion dollars worth of gold in U.S. official reserves.

In 1971 President Nixon ended the convertibility of dollars into gold, and money managers and speculators, in waves of dollar selling, unloaded U.S. currency in favor of yen, marks, and other strong monies. The 1944 monetary system had broken down. One hundred and twenty-five member nations of the International Monetary Fund, or IMF, grappled with the problem of how to replace it with something else. Recently the so-called "Committee of Twenty" entrusted by the IMF with drawing up a new monetary system met in Washington. From that meeting emerged optimistic reports of a major step forward.

337

Mr. Bennett, as a top U.S. Treasury official, you have been centrally involved in these negotiations. Is there now agreement on the basic principles that should go into a new system?

JACK F. BENNETT: I wouldn't say that there is agreement. But I think the reports of optimism were accurate. This most recent and third meeting of the ministers of the C Twenty took place in circumstances that were favorable from several points of view. There was no current monetary crisis to distract the ministers' attention, and yet there was a feeling that we had in front of us a monetary structure, system, that was not perfect, that the mind of man could certainly improve it. And that circumstances, aided by the fact that the ministers' deputies had had many meetings over the past year and had begun to gain on each side an understanding of the viewpoint of the other and there'd been a coming together -- the result is, there's now reasonable optimism that there will be a substantial amount of agreement which can be reported at Nairobi, when the International Monetary Fund annual meeting takes place there next month. I don't think there's any question there will be a document which can be reported and put out for further public comment. The question is not whether there'll be an agreement; the question will be just how far it goes, because there will certainly be important areas that are not yet agreed at that time.

ELLIS: In a moment, I'd like to get into some of the details of specific points that might go into a new system. But, Mr. Caldwell, today we are in a situation in which we have a devalued dollarar -- it has been twice devalued -- and also in which currencies generally are floating against the dollar. Now, in this current confused situation, world trade continues to expand. But are American businessmen, and perhaps world businessmen, hurt by the present situation?

JOHN L. CALDWELL: Mr. Ellis, I think the -- probably the most accurate response to your question is -- is on two levels, one a -- a corporate or a business level and the other one on a personal level. Let me first take the personal level. In Europe primarily, and in Japan as well, American businessmen have suffered personally by the two dollar devaluations, particularly in those instances when their corporations, their employers, have not compensated for the dollar devaluations. There are a number of instances in Europe, for example, where Americans have abandoned ship and are now returning to the United States. This particularly affects such people as divorces, pensioners, and people of that -- with fixed incomes. In some instances corporations have compensated their employees abroad and therefore they are not affected. In the main, corporations doing business abroad have not been all that -- that affected, particularly, as you -- as you noted, trade has -- has expanded. Investments in some instances continue to grow; in others they -- they're being withdrawn. Or plans for

338

investments in such places as Korea, one specific example, is being cancelled by an electronics firm, a major electronic U.S. manufacturer, because it's much -- it's more -- much more advantageous now not to invest but to export.

ELLIS: On that personal level, I know what you mean. When I was a foreign correspondent in Germany, one dollar bought four marks on which to live. And now it buys about two point three marks. So.

Mr. Bennett, to go back for a moment, as we're talking about trade and -- and monetary affairs in tandem, is there general agreement that within a reformed system there will be a reduced role for the dollar and for gold? And if so, what will take its place as the numerere [?] or central monetary standard of the system?

BENNETT: On the level of principle I think there's complete agreement that the new system will involve a reduced role for gold and that there will be a reduced role for the dollar. The details are not -- are not yet agreed as to the pace at which the role of gold and exact manner in which it will be phased out. But there is agreement in principle.

The numerere of the system will be the SDR, the Special Drawing Right, although it -- its characteristics will presumably be somewhat different from those of the present SDR and its name may be changed.

ELLIS: For a layman, the Special Drawing Right, or "paper gold" as it sometimes is called, is a -- is a concept hard to grasp. Could you explain what is a special drawing right?

BENNETT: It can be approached from two angles. At one angle it can be looked upon as a lending by an international agency to an individual country. And behind that lending are the countries which are the backers, the participants, the shareholders, in the international agency. It could be analyzed completely in terms of lending and borrowing. The usual practice, however, is to analogize it more closely to money and really treat it more like paper money that's created by a national government. And while it's called a drawing right, it's -- the terminology used in the International Monetary Fund normally treats it more as if it were a bank deposit.

ELLIS: Is it fair to say that each of the one hundred twenty-five members of the IMF is assigned drawing rights in proportion to their subscription of funds to the working fund of the IMF?

BENNETT: That has been the case. One of the questions for the future is whether that strict proportion should be maintained or whether the creation -- the SDR's created periodically should

339

be allocated on a discriminatory fashion in favor of the less developed countries.

ELLIS: One hears that one disadvantage of gold is that it is not elastic and cannot expand sufficiently to -- to monetize or base world trade as it expands. I suppose that one advantage of special drawing rights is that they are more or less infinitely elastic, can go up or down as the need requires.

BENNETT: Well, elasticity is an advantage, but it is an advantage which has to be used with restraint if the SDR is to serve its purpose, is not to be an engine of inflation. It is hoped that the SDR can be managed to provide a more stable basis than gold, for which speculative demand, industrial demand, and rates of discovery and production are rather unpredictable and variable.

ELLIS: Mr. Caldwell, next month world trade officials will open talks in Japan, and also in September, as Mr. Bennett has said, the IMF will hold its annual meeting in Nairobi. Now, from the businessman's point of view is there a link between trade and monetary reform?

CALDWELL: Mr. Ellis, there's a -- a definite link between the two. The -- a meaningful negotiation on trade matters is very much contingent on a resolution of the international monetary issues which have been plaguing us for quite some time. Unless -- unless the international monetary system is indeed reformed, any -- any benefits that can be derived from -- as a result of the negotiations will -- will be nil.

ELLIS: Let's speak for a moment of a specific country with which the United States does a lot of business, Japan. Last year the United States ran a trade deficit of about four billion dollars with Japan. Is the U.S. making progress in balancing its trade with Japan this year? And if so, how, Mr. Caldwell?

CALDWELL: Well, significant -- on the basis of the first five months of this year, a significant progress has been made. The Japanese claim that by the end of the year, on the basis of this early performance in 1973, that our bilateral trade imbalance will be -- will drop from about four point two billion dollars -- or four point one -- of last year to roughly about two point five and perhaps even as low as two billion. The -- the problem with that is that there are some really fundamental and basic structural differences between our two economies, which suggest that for the foreseeable future we'll continue to maintain a fairly significant trade imbalance bilaterally with Japan. And this is not necessarily all that bad.

What's important for any country, and particularly the

United States, is over-all balance with the rest of the world, as with Japan. The -- the problem heretofore has been the -- really the size of the trade imbalance between Japan and the United States; and there is definitely a need to bring that down. Now, the two dollar devaluations have indeed helped to redress that imbalance. Japanese steel exported to the United States, for example, is now, as of the first of June, reflecting somewhere around thirty, thirty-one, thirty-three percent price changes and in accordance...

ELLIS: You mean it's more expensive.

CALDWELL: That's correct.

ELLIS: Right.

CALDWELL: The American steel industry feels satisfied that it is now, so long as these trends continue, it is now again competitive. In a variety of other industries as well there is s a -- a general feeling that these -- that de facto yen revaluation has indeed helped.

ELLIS: I'd like to come back to trade in a more particular sense in a moment. But, Mr. Bennett, in recent years some nations, notably Japan and West Germany, have run very large trade and balance of payments surpluses, and others, like the United States, are chronically in deficit. Now, will there be rules within a new monetary system obliging member nations whose payments accounts are out of balance, either surplus or deficit, to take corrective action?

BENNETT: Well, that was an area in practice of a serious defect as it developed in the Bretton Woods system. In practice the system did not apply sufficient pressure on surplus countries, such, for example, as Japan and Germany, and to initiate adjustment promptly enough. That has been the major accomplishment, I think, of the past year, that there has been a movement in -- in expert opinion abroad into recognition of the need that the new system must actively promote adjustment and that for that purpose there must be some indicators that facilitate the process of applying that pressure and when there is need the international community would have at its disposal means of applying pressure on countries to encourage them to undertake adjustment.

ELLIS: When you speak of "indicators" what might that mean?

BENNETT: Well, there will be various indicators. Increasingly it has been recognized that pride of place probably goes to the level and rate of change in a country's international monetary reserves, both because that is a comprehensive measure, secondly because it's a quickly -- it's a readily available measure. But there is no thought that it should be the exclusive measure.

ELLIS: Now, again on trade in a more general sense, last year the total U.S. balance of payments deficit, reflecting the total flow of -- of currency in and out of the country, was about ten billion dollars, of which six point four billion was in trade. We have had these two devaluations of the dollar of which we have spoken. Are these helping to reduce, Mr. Bennett, the over-all trade imbalance of which Mr. Caldwell spoke? And, beyond that, how can we as a nation in the United States generate enough exports to pay for the increasing amounts of fuel oil -- of oil and natural gas which we have to import?

CALDWELL: Well, the trade picture has clearly been improving. On the basis of the figures reported on the -- by the Census Department, we actually had a slight trade surplus in the second quarter of this year. On a balance of payments basis there was a slight deficit. But in any event that's a tremendous improvement over the previous quarters. To be sure, a large portion of the improvement from a year earlier had been agricultural sales; and while these will be high in the near future, we cannot expect the continued growth of the same magnitude. On the other hand, there have been improvements in the area of manufactured goods flows, and we expect these to continue as well.

ELLIS: As I understand, the cost of importing oil and natural gas rises about one billion dollars a year and there are some projections that by 1980 or -85 we might be having to spend up to thirty billions of dollars to import the fuel that would keep our economy running at its present rate. Now, is there any hope of unilaterally as a nation generating enough extra exports to offset this, or are we going to have to work this problem out in concert with other fuel-hungry nations like Japan and West Germany?

BENNETT: The import of these increasing amounts of oil does impose a real cost on the country. On the other hand, Europe and Japan will be increasing their imports of oil by even larger amounts. We have done well in the past in providing from our exports the -- the imports of the oil-producing countries and we would hope to continue to do so. And we will provide the goods they need for their -- their development. Some of the countries will probably be accumulating assets which they do not want to spend immediately for their development but will want temporarily, at least, and for some a long period, to invest. We believe the U.S. will provide attractive investment opportunities for much of that money.

ELLIS: Mr. Caldwell, from -- again, from the businessman's standpoint, would U.S. business in general welcome foreign -- namely, Arab -- investment in this country as a means of utilizing some of that great surplus of funds they are going to be building up?

CALDWELL: The business community generally has supported reverse investments from any quarter, particularly those quarters which are running fairly heavy dollar reserves, like Japan and, as you projected, the Arab countries. I think it's in -- in general a -- much greater thought is going to have to be devoted to this whole question of reverse investments and the way in which it'll impact on the United States. As you know, the United States has traditionally been a -- a capital exporter and we've -- we've earned on -- in recent years approximately eight billion dollars in returns on those foreign direct investments. We -- by contrast, direct investment in this country from foreign sources has only amounted to about thirteen billion dollars, which is quite a disparity with the -- with the dollar amounts of -- of U.S. investments abroad. Consequently a psychological adjustment process will have to take place and a -- a careful look will have to be given to the impact of -- of such investments. But generally I think the American business community would -- would support these -- these investments.

ELLIS: As it happens, Mr. Bennett, the countries from which we buy our oil are in large part, such as Saudi Arabia or Kuwait, unable to use all the -- invest all their resources in their own country. Now, I don't speak of speculation because perhaps a more accurate term is managing money, but is there any evidence as to what extent Arab oil countries have been using liquid capital in such a way that it -- that it has upset the monetary flow in the world? In other words, to what degree are Arab oil funds involved in the speculative flows that we have seen disrupting the system?

BENNETT: First of all, there are, of course, a number of oil producers, for example Iran, who have in their view urgent current need for all of their revenue. There are other countries of whom I have specific experience who have followed what I regard as wise investment policies; they've not -- [they've] recognized the funds are not short-term, they've invested them for maximum and long-term gain, and that requires stable investment. There have been rumors of some oil country money participating in short-term capital flows, and there may have been some, but I have no direct knowledge of any large amounts; and I do have knowledge, on the other hand, of some large investors who clearly did not participate in any large short-term capital switches.

ELLIS: When the Shah of Iran was here recently he made the point that his country could absorb all its oil revenues very usefully. Now -- and in fact he also disclosed that Iran had entered into a fifty-fifty investment with Ashland Oil Company in New York State. Now, might I ask either of you gentlemen do you know of plans by Kuwait or Saudi Arabia or other oil-producing countries other than Iran to similarly invest in the United States?

CALDWELL: There have been indications from both Saudi Arabia and Kuwait, in addition to Iran, that they're -- that they are interested in investing. It's a new ball game for them; they're

593

going to have look at the market rather carefully and see what -- what areas they ought to invest in. I would suspect that the industry and the amount of investments would determine whether or not that investment would -- would be judged as, quote, "acceptable," unquote. I would daresay that if Saudi Arabia were to utilize its reserve -- dollar reserve assets to buy out completely IBM that might create some political difficulties. But if, on the other hand, Saudi Arabia -- or any country, for that matter -- were to spread its -- its dollars in small percentages among a large spectrum of -- of businesses and industries, this certainly would be desired and -- and acceptable.

In addition, the -- you're referring, obviously, to the problem of how can these -- these countries use their accumulated dollar reserves. In addition to reverse investments there is also the very promising possibility of using those dollars for downstream investments in the countries themselves. A certain amount of this is being done already by a number of countries. In Saudi Arabia, for example, an American firm based in California is mining iron pellets in Brazil, shipping them to Saudi Arabia, and a plant is being built to -- to process these -- these iron pellets using the gas that is burned in -- in the oil extraction. So there are a variety of -- of approaches whereby these dollars can be used.

ELLIS: Mr. Bennett, a blunt question. The Saudis, from whom we will be importing more oil than from any other country, have made it pretty clear that they may link expansion of their oil production to a less pro-Israel policy on the part of the U.S. government. How meaningful has that pressure been to now and what does it portend for the future?

BENNETT: Mr. Ellis, I'm not in the State Department or the National Security Council. My context with the countries of the area are -- are economic. And the economic cooperation is proceeding on an excellent basis. I have no political comments to make.

ELLIS: And you mean economic cooperation with Saudi Arabia included?

BENNETT: Yes.

ELLIS: Now, the question of this one hundred billion dollar overhang, which rolls around like loose ballast on a ship...

BENNETT: Let me -- let me interrupt right there.

ELLIS: Yes.

BENNETT: The largest proportion of this so-called "overhang" is invested in U.S. Treasury obligations. I suppose a large proportion of it is held by Japan and Germany, the authorities. It does not roll around; it is one of the most stable investment [sic] in the world.

ELLIS: Then from where does the impression come that in short-term capital flows, which have been disruptive, that there is an element of speculation based on ownership of overseas dollars?

BENNETT: Firstly, you have to be a little careful of what's disruptive, what "disruptive" means. There were short-term capital flows early this year. As a result we now have a more reasonable set of exchange rate relationships. Just how disruptive were the flows, therefore, is a -- is a question you have to approach with care.

If there is a desire to make a short-term capital movement from one currency to another, it -- it can be done with dollars that are in New York as well as the dollars that are abroad, or a Japanese firm can borrow in the United States. So that the measure of the ability of the world to engage in short-term capital movements is not the investment in -- in U.S. securities held by foreigners, the largest portion of which, as I say, is in very stable hands.

ELLIS: Is there any indication of how many of these estimated one hundred billion dollars are owned by Americans -- by multi-national corporations, by American banks?

BENNETT: Well, the holdings held by American banks would not be a part of this if they're held here. Now, you mean...

ELLIS: No. But in their overseas...

BENNETT: ...held through a foreign intermediary...

ELLIS: Uh-huh. Uh-huh.

BENNETT: ...of some sort.

ELLIS: Yes.

BENNETT: No, I don't have an estimate of that.

ELLIS: Mr. Caldwell?

CALDWELL: The American business community generally regards the problem of the dollar overhang the -- probably the most pressing liquidity, immediate liquidity, problem of the United States. And we generally feel that techniques will have to be developed to -- rather promptly to deal with this problem. And those -- incidentally, those same techniques, referring to what

Mr. Bennett alluded to earlier, could also very well be applied to the sterling overhang or the deutschemark overhang and etcetera. The dollar overhang significantly increases the risk of instability in the international monetary system; and it in effect renders impossible the return to convertibility for the dollar into U.S. reserve assets. And so generally business would certainly view its stabilization as an integral element of monetary reform.

Now, there are several approaches or techniques for consolidating the overhang that have been suggested. A very promising possibility is the creation of a special issue of SDR's into which monetary authorities can convert any or all of their dollars as well as other reserves.

ELLIS: One question about floating. We are now in the situation of general floating against the dollar. Mr. Bennett, how do we move out of that situation?

BENNETT: Well, there's firstly the question of what's the desired speed. In the recent period, when there were factors disturbing to -- to economic confidence, it's quite possible that the result of the disturbance would have been far clearer if we had not had floating relationships among currencies. Gradually, however, as we conquer inflation and reduce disequilibria in the world, currencies will be more stable. And then we could perhaps move to rules that are -- might regard as opposite of floating.

ELLIS: In a word, Mr. Bennett, can we hope for a reformed monetary system in place and ratified by governments possibly by the end of 1974?

BENNETT: There's a strong possibility of an agreement. Whether the ratification will be completed I don't know.

ELLIS: Thank you, gentlemen. Our time is up.

[Theme music up, under]

ANNOUNCER: You have been listening to Issues In The News, a weekly unrehearsed program in which American correspondents and guests give their views on developments in the news.

Today's panelists were: Jack F. Bennett, Deputy Under-Secretary for Monetary Affairs, the U.S. Treasury; John L. Caldwell, Director, The Center for International Business Relations, the U.S. Chamber of Commerce; and Harry Ellis, the Christian Science Monitor.

Join us again next week at this time for another unrehearsed discussion of issues in the news.

[Theme music up, fade out]

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

34C

FOR RELEASE AT 9 A.M. MDT
MONDAY, AUGUST 20, 1973

EXCERPTS FROM REMARKS
BY THE HONORABLE EDGAR R. FIEDLER
ASSISTANT SECRETARY OF THE TREASURY FOR ECONOMIC POLICY
AT THE
COST OF LIVING COUNCIL REGIONAL CONFERENCE
DENVER, COLORADO
AUGUST 20, 1973

Phase IV descended on the economic scene last week to the applause of few and the hisses of many. The public is unhappy because Phase IV fails to suppress the numerous price increases, particularly for food, that are working their way through the system. Businessmen and labor leaders are disgruntled because controls limit their freedom, create inefficiencies in production and marketing, and generate a new layer of government paperwork with which they must wrestle. Economists are troubled by the potential distortions and disincentives that controls can produce. Government officials are vexed by the difficulties of administering the controls, especially in the face of a strong economy. All of this unhappiness is a sure sign of the serious inflation problem we are faced with today. However, the fact that there is a common misery does not tell us how to deal with the problem.

Many people react to the problem of inflation by saying that we should pass a law against it. Unfortunately, a nice simple, permanent solution like that is unrealistic. In effect, we did that during the freeze, and even in that short period created serious supply problems for poultry, pork, copper scrap and perhaps other commodities. If a freeze were to be continued indefinitely, it would do serious damage to the economy, not only in agriculture but in the industrial sector as well.

Our inflation problem is, of course, very complex. Perhaps the single most important element over the past year or two is the reduction in the available supply of food because of bad weather and in some cases disastrously poor crops here and abroad. There is a tendency to blame everything on last year's wheat sale to Russia but in fact the supply-demand imbalance exists throughout the world.

A second major element in the inflation problem is the worldwide economic boom. Every industrialized country is simultaneously experiencing strong economic growth and this unusual development is putting great pressure on the supplies and prices of industrial raw materials.

Given these basic causes of inflation, we must ensure that our fundamental economic policies provide the necessary countervailing force. To prevent our economic boom from running away with itself, the Government is applying firmly restrictive fiscal and monetary policies. The Federal budget will be in balance this fiscal year. And to help alleviate shortages, we have taken a series of major actions to augment supply. For example, all previous limitations on the planting of crops have been eliminated. This is helping to produce record harvests this year, and there is the strong expectation of even larger food production in 1974.

To supplement these fundamental policies, the Economic Stabilization Program is being applied to prevent anticipatory increases in prices and wages. The American people must not think that inflation is inevitable. Past experience tells us that the kind of commodity inflation experienced during the first half of 1973 is reversible. At some point the supply of food and industrial raw materials will catch up with demand and when that happens, commodity prices will fall.

Thus, businessmen must not build a constant upward trend into their pricing policies, irrespective of market conditions, in the mistaken view that the price explosion will continue indefinitely. Similarly, businessmen and workers, in their joint determination of future wage rates, must not anticipate a permanently high rate of inflation. We must not let the commodity inflation upset the very favorable wage performance of 1972 and 1973. To do so would build a price-wage-price spiral into the economy for several years ahead, and would make the problem of regaining reasonable stability a very much more difficult and painful undertaking.

The function of Phase IV, therefore, is to help prevent the recent commodity inflation from becoming irreversibly institutionalized into the entire structure of our economy. This will not be an easy task. Direct price and wage controls are seldom popular, and the longer they last the more unhappiness they produce. However, with the understanding and cooperation of businessmen and workers, Phase IV can make a crucial contribution to the task of restoring reasonable price stability to the American economy.

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347

FOR RELEASE 6:30 P.M. August 20, 1973

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.5 billion of 13-week Treasury bills and for $1.8 billion of 26-week Treasury bills, both series to be issued on August 23, 1973 were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing November 23, 1973		:	26-week bills maturing February 21, 1974	
	Price	Equivalent annual rate	:	Price	Equivalent annual rate
High	97.742 a/	8.836%	:	95.539	8.824%
Low	97.708	8.969%	:	95.516	8.869%
Average	97.723	8.910% 1/	:	95.523	8.856% 1/

a/ Excepting two tenders totaling $1,080,000

Tenders at the low price for the 13-week bills were allotted 19%.
Tenders at the low price for the 26-week bills were allotted 4%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 42,875,000	$ 32,875,000	:	$ 26,415,000	$ 15,485,000
New York	2,832,910,000	1,963,360,000	:	2,760,135,000	1,410,700,000
Philadelphia	45,340,000	25,340,000	:	13,900,000	12,935,000
Cleveland	46,090,000	46,090,000	:	61,285,000	25,485,000
Richmond	35,310,000	32,310,000	:	23,560,000	19,560,000
Atlanta	20,460,000	20,460,000	:	17,115,000	16,215,000
Chicago	329,670,000	233,665,000	:	309,035,000	143,945,000
St. Louis	31,640,000	29,140,000	:	71,095,000	24,595,000
Minneapolis	21,580,000	9,580,000	:	22,295,000	6,095,000
Kansas City	37,560,000	32,560,000	:	27,940,000	20,870,000
Dallas	40,160,000	23,175,000	:	56,030,000	13,530,000
San Francisco	111,195,000	51,935,000	:	198,230,000	90,595,000
TOTALS	$3,594,790,000	$2,500,490,000 b/		$3,587,035,000	$1,800,010,000 c/

b/ Includes $375,945,000 noncompetitive tenders accepted at the average price.
c/ Includes $251,125,000 noncompetitive tenders accepted at the average price.
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 9.24 % for the 13-week bills, and 9.40% for the 26-week bills.

13-week		26-week
8.976	Last week	8.943
8,910	Today	8.856
8,486	Low since 8/6/73	8.650

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WASHINGTON, D.C. 20220 TELEPHONE W04-2041

349

FOR IMMEDIATE RELEASE August 20, 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 $30 million under Government guarantee, which, when drawn down, will bring the total permitted borrowings under Government guarantee up to $180 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.

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S-266

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

350

FOR IMMEDIATE RELEASE

August 21, 1973

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $ 4,300,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing August 30, 1973, in the amount of $4,302,405,000 as follows:

91-day bills (to maturity date) to be issued August 30, 1973, in the amount of $2,500,000,000, or thereabouts, representing an additional amount of bills dated May 31, 1973, and to mature November 29, 1973 (CUSIP No. 912793 SF4) originally issued in the amount of $1,702,030,000 the additional and original bills to be freely interchangeable.

182-day bills, for $ 1,800,000,000, or thereabouts, to be dated August 30, 1973, and to mature February 28, 1974 (CUSIP No. 912793 TA4).

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, August 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

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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 August 30, 1973, in cash or other immediately available funds or in a like face amount of Treasury bills maturing August 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.

Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

351

FOR RELEASE WEDNESDAY, AUGUST 22, 1973

JUNE 1973 OIL PRICES RELEASED

The average price of East Coast tanker, pipeline, and barge quantities of residual fuel oil delivered to purchasers for resale went from $4.02 a barrel in May to $4.00 a barrel in June, according to Treasury Department Deputy Secretary William E. Simon, who also serves as Chairman of the President's Oil Policy Committee.

The average price of residual fuel oil picked up by purchasers for resale decreased from $3.00 a barrel in May to $2.56 a barrel in June. This oil averaged lower in price than others because of sulfur content and other characteristics. Tanker and pipeline deliveries to East Coast electric utilities averaged $3.84 a barrel in June, a decrease of 16 cents from May.

For tanker, pipeline, and barge quantities, East Coast marketers paid an average of $4.20 a barrel for residual fuel oil with sulfur content of one percent maximum, an increase of seven cents from May; $3.08 a barrel for oil with sulfur content of 1.5 percent through 2.2 percent, an increase of 19 cents; and $2.83 a barrel for oil with sulfur content over 2.2 percent, a one-cent decrease.

The survey is part of the surveillance under the Presidential Proclamation on oil imports. This report is limited to No. 6 residual fuel oil, both domestic and imported. Excluded are intra-company business, sales to the Department of Defense, and sales outside the U. S. These results are obtained from the summation of individual company submissions and include business on contracts of various vintages and spot transactions.

Attachment

S-268

DEPARTMENT OF THE TREASURY SURVEY OF NO. 6 RESIDUAL FUEL OIL

EAST COAST SALES [1/], REVENUE AND COSTS PER BARREL [2/], BY REGIONS [3/]

JUNE 1973

PART I. SALES	All Regions (1) Delivered to Purchaser	All Regions (2) Picked up by Purchaser	Region A (3) Delivered to Purchaser	Region A (4) Picked up by Purchaser	Region B (5) Delivered to Purchaser	Region B (6) Picked up by Purchaser	Region C (7) Delivered to Purchaser	Region C (8) Picked up by Purchaser	Region D (9) Delivered to Purchaser	Region D (10) Picked up by Purchaser
A. To resellers:										
1. Tanker, pipeline or barge	$4.00	$2.56	$3.69	$NR[4/]	$4.86	$NR	$NR	$4.14	$NR	$NR
2. Truck or tank car	4.26	3.89	NR	3.63	4.44	5.03	NR	3.91	3.48	3.04
B. To electric utilities:										
1. Tanker or pipeline	3.84	4.56	4.25	NR	4.11	--	3.60	NR	3.31	NR
2. Barge	3.99	4.58	NR	NR	4.48	NR	3.71	4.66	3.85	NR
3. Truck or tank car	4.16	--	NR	--	NR	--	--	--	4.16	--
C. To other consumers:										
1. Barge	3.74	3.13	4.69	NR	4.44	NR	3.94	2.98	2.77	3.14
2. Truck or tank car	4.45	3.35	4.73	NR	4.87	4.54	4.25	3.39	3.40	2.95

PART II. PURCHASES BY MARKETERS Tanker, Pipeline or Barge	All Regions	Region A	Region B	Region C	Region D
Sulfur content:					
A. 1% maximum	$4.20	$4.13	$4.51	$4.30	$NR
B. Over 1% thru 1.5%	NR	NR	--	--	--
C. Over 1.5% thru 2.2%	3.08	NR	3.00	--	NR
D. Over 2.2%	2.83	NR	--	NR	NR

MAY 1973

PART I. SALES	All Regions (1) Delivered to Purchaser	All Regions (2) Picked up by Purchaser	Region A (3) Delivered to Purchaser	Region A (4) Picked up by Purchaser	Region B (5) Delivered to Purchaser	Region B (6) Picked up by Purchaser	Region C (7) Delivered to Purchaser	Region C (8) Picked up by Purchaser	Region D (9) Delivered to Purchaser	Region D (10) Picked up by Purchaser
A. To resellers:										
1. Tanker, pipeline or barge	$4.02	$3.00	$4.06	$NR 4/	$4.80	$NR	$NR	$4.00	$NR	$NR
2. Truck or tank car	4.44	4.07	4.61	3.78	4.55	5.00	4.36	4.00	3.62	3.09
B. To electric utilities:										
1. Tanker or pipeline	4.00	4.60	4.56	NR	4.22	--	3.51	NR	3.35	NR
2. Barge	3.93	4.57	NR	NR	4.36	NR	3.70	4.58	3.68	NR
3. Truck or tank car	4.10	--	NR	--	--	--	--	--	4.06	--
C. To other consumers:										
1. Barge	3.80	3.17	4.67	NR	4.45	NR	3.73	2.93	2.80	3.22
2. Truck or tank car	4.42	3.44	4.60	2.86	4.85	4.50	4.19	3.50	3.43	3.00

PART II. PURCHASES BY MARKETERS Tanker, Pipeline or Barge	All Regions	Region A	Region B	Region C	Region D
Sulfur content:					
A. 1% maximum	$4.13	$4.21	$4.17	$4.11	$NR
B. Over 1% thru 1.5%	--	--	--	--	--
C. Over 1.5% thru 2.2%	2.89	NR	NR	--	NR
D. Over 2.2%	2.84	NR	NR	NR	2.87

1/ Excludes intracompany transactions in which exchanges of goods and/or services are significant, sales to the Department of Defense, and sales outside the United States.

2/ Reflects all allowances and charges, including delivery charges of vendor.

3/ Regional classification by destination. Regions consist of: A, New England; B, New York and New Jersey; C, Pennsylvania, Delaware, Maryland, District of Columbia, and Virginia; and D, North Carolina, South Carolina, Georgia and Florida.

4/ NR - not released in order to avoid possible disclosure of individual company information.

Department of the TREASURY NEWS
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353

FOR IMMEDIATE RELEASE August 22, 1973

TREASURY DEPARTMENT ANNOUNCES FORMATION
OF ADVISORY COMMITTEE ON MONETARY REFORM

Secretary of the Treasury George P. Shultz today announced formation of an "Advisory Committee on Reform of the International Monetary System."

In forming the Committee, Secretary Shultz noted that "as the reform discussions reach their definitive stage, I think it particularly appropriate and important that the government officials concerned keep in close touch with experienced and expert members of the private financial and business community to help assure that reform is realistic, practical and effective. I look forward to the advisory committee playing an important role in this effort."

The 14-member group will hold its first meeting in Washington August 29.

Henry H. Fowler, former Secretary of the Treasury and now a partner of Goldman Sachs and Co., will serve as Chairman of the group. Two other former Secretaries of the Treasury also will serve on the Committee -- Douglas Dillon of New York and John B. Connally of Houston, Texas. Other members are: William Blackie, Director and Former Chairman of the Caterpillar Tractor Co., Peoria, Ill,; A.W. Clausen, President of the Bank of America, San Francisco; Gaylord Freeman, Chairman of the Board of the First National Bank of Chicago; Gabriel C. Hauge, Chairman of the Board of the Manufacturers Hanover Trust Co., New York; Howard C. Petersen, Chairman of the Board of Fidelity Bank, Philadelphia; David Rockefeller, Chairman of the Board of Chase Manhattan Bank, New York; Robert V. Roosa, Partner, Brown Bros. Harriman and Co., New York; Reginald H. Jones, Chairman and Chief Executive Officer, General Electric Co., New York; Ellmore C. Patterson, Chairman of the Board, Morgan Guaranty Trust Co., New York; Walter B. Wriston, Chairman of the Board, First National City Bank, New York and Henry C. Wallich, Senior Consultant to Secretary Shultz and a Yale University Economics Professor.

Professor Wallich besides serving on the Committee will continue to maintain liaison with members of the academic community who have been consulting with the Treasury on monetary reform issues.

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S-267

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

354

FOR IMMEDIATE RELEASE August 22, 1973

THE HONORABLE GEORGE P. SHULTZ
SECRETARY OF THE TREASURY
REMARKS AT
THE SWEARING-IN CEREMONY OF VARIOUS U.S.
OFFICIALS OF THE INTERNATIONAL FINANCIAL INSTITUTIONS
WEDNESDAY, AUGUST 22, 1973

We are swearing in to office today four men -- Charles Sethness as U.S. Executive Director of the World Bank, and Hal Reynolds as his Alternate; Rex Beach as the U.S. Director of the Asian Development Bank; and Kenneth Guenther as the Alternate U.S. Executive Director of the Inter-American Development Bank. This event marks another important step in the foreign economic policy of the United States. Along with John Porges and Jesun Paik who have already assumed their duties as Inter-American Bank Executive Director and Asian Bank Alternate Director, respectively, we now have a full management team representing the U.S. in the international financial institutions.

Little public attention has been focused on the important programs of these institutions, and I would like to say a few words about them and the important work of our representatives here.

S-269

Development is something that goes on quietly day after day. These banks rarely get headlines except for the more dramatic help they give in the wake of natural disasters or their efforts to finance rebuilding after a destructive war.

Development takes time, persistence, patience and dedication. It also requires sound financial and economic policies. These men have the difficult task of seeing that the effort is well managed -- that sound policies are followed and that U.S. interests are looked after. They must be hard-nosed bankers, diplomats of no small moment, besides having the dimension of vision and understanding. It is one of the most important tasks and yet, by its nature, if it is well done, it will not be heard of -- there will just be steady progrss.

Last September, President Nixon called for a "total reform of international economic affairs" to help shape the world for a generation of peace. He warned the members of the International Monetary Fund of the increasing potential for economic conflict as the danger of armed conflict decreased. His words strengthened a growing worldwide sentiment that something had to be done, some action taken, and we began a series of negotiations for reform.

Through the IMF's Committee of Twenty we are approaching agreement on international monetary reform. In several weeks I will go to Tokyo where international reform discussions will officially begin with other trading nations of the world under the General Agreement on Tariffs and Trade to expand world trade and reduce trading barriers. The Congress is presently considering comprehensive legislation on trade submitted by the President to enable us to participate meaningfully in these negotiations. The third part of our foreign economic policy, to which the President is deeply committed, concerns our relations with the developing countries. He feels strongly that the programs of the international financial institutions, which are of vital importance to those countries, are an integral part of a cooperative international economic system.

To encourage and sustain this move toward global cooperation, it is essential that the United States maintain its fair share in these programs. Our active role ensures a beneficial effect on the world system in general and, in particular, on developing countries, as well as for ourselves. These multilateral programs constitute part of a balanced development assistance program and are a complement to our bilateral programs. They represent a shared responsibility and leadership.

Let me take just a moment to describe these institutions:

The World Bank Group is the global structure. It has three parts to it -- the Bank itself, the International Development Association or IDA, and the International Finance

Corporation. The Bank is the oldest of the institutions with over 25 years experience, and plays a leading role in coordinating economic assistance. It brings the collective judgment of its 122 member nations into play to promote sound economic policies in borrowing countries.

The regional development banks were created to bring special expertise to bear on development problems in the particular geographic areas they serve. The Inter-American Development Bank, established in 1959, is made up of the U.S., Canada and 22 Latin American countries. The Asian Development Bank was established in 1966, with the strong support of the U.S., and now has 24 Asian members and 14 non-Asian members. The African Development Bank, established in 1963, consists of 36 independent African nations but is increasing its scope as Europeans and Japanese join the new African Development Fund. The U.S. is not yet a member.

These banks do a great deal to further economic growth and stability in the less developed countries -- which is just as important to us as it is to those countries themselves. This encourages growth in world export and import markets and, as the less developed countries grow, opportunities for the U.S. also grow. In these times of inflation, developing countries are a prime source for raw materials and for semi-manufactured products. One-third of the raw materials used by the U.S. come from less developed countries and this ratio is rising. And we export products to these countries. Year after year the United States has had a positive balance of trade with them -- even in 1972 when we had a deficit balance with other countries.

The international financial institutions also promote participation by the private sector in the financing of development assistance through the sale of their bonds in the private capital markets. In addition, both domestic and foreign private investment in the less developed countries increases when the banks finance infrastructure and other important economic development projects.

I think you can see why we feel it is important to continue our participation through our contributions to these banks. We pay our "fair share" in funding the international financial institutions -- a fair share internationally negotiated on the basis of burden-sharing considerations. Our contribution is roughly related to the U.S. relative economic strength among the donors to the specific institution. This burden-sharing relieves some of the pressures for bilateral aid. For example, the World Bank and the Asian Bank are prepared to head a group of member nations to mobilize resources from many capital-exporting countries for reconstruction aid to Indochina.

The President strongly supports the programs of the banks. They form a key component of his foreign economic policy. Our shares in them fit in with our budgetary and balance of payments objectives. They make good sense. And, they are an efficient and effective instrument for channeling our support to the less developed countries.

We are working hard to help shape the programs and the procedures of the international financial institutions so that they are responsive to the legitimate joint concerns of Congress and the Executive Branch. We have already been able to bring about a number of desirable changes and adaptations in the banks. The key to further success in doing so clearly lies in the professional skills of those who represent us.

We will continue negotiating with other nations in our efforts to resolve our differences and to "erect a durable structure of peace in the world from which all nations can benefit." The road to that goal includes working for international cooperative improvements through the international financial institutions -- a task which these four gentlemen will now help us to carry out.

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

357

FOR IMMEDIATE RELEASE August 22, 1973

SWEARING-IN CEREMONY OF
U.S. OFFICIALS OF THE INTERNATIONAL
FINANCIAL INSTITUTIONS

Secretary of the Treasury George P. Shultz today swore into office four U.S. officials in the international financial institutions: Charles O. Sethness as U.S. Executive Director of the International Bank for Reconstruction and Development; Hal F. Reynolds as the U.S. Alternate Executive Director of IBRD; Kenneth A. Guenther as U.S. Alternate Director of the Inter-American Development Bank; and Paul Rex Beach as U.S. Director of the Asian Development Bank.

Mr. Sethness has been Manager of Corporate Finance for Morgan and Cie International, S.A., an investment banking firm in Paris, since April 1971. From August 1967 to April 1971, he held several positions with Morgan Stanley and Company in New York, including that of Vice President, before joining the firm's subsidiary in Paris.

Born on February 24, 1941, in Evanston, Illinois, Mr. Sethness received his B.A. degree from Princeton University in 1963, attended the University of Chicago, and received his M.B.A. degree from the Harvard Graduate School of Business in 1966. During 1963-4, he was a Senior Credit Analyst with the American National Bank and Trust Company of Chicago.

Mr. Reynolds has been with the Treasury Department since 1967 and has been serving as Acting U.S. Director at the World Bank. He was with the Agency for International Development from 1962-67. Prior to that, from 1956-62, he was an attorney with the firm of Davis, Polk, Wardwell, Sunderland and Kiendl in New York. In 1951-52, he taught economics at Williams College after serving with the State Department from 1949-51.

A native of Cleveland, Ohio, Mr. Reynolds was born on March 16, 1927. He received his B.A. degree in economics from Williams College in 1949, and his LL.B. degree from Harvard Law School in 1956. He is a member of the Bars of New York State and the District of Columbia.

Mr. Guenther has been Special Assistant for Economic Affairs to Senator Jacob K. Javits of New York since June 1969. From June 1965 to June 1969, he was a Foreign Service Officer assigned to the U.S. Embassy at Santiago, Chile, and to the Bureau of International Organization Affairs. From 1960-65, he was with the Department of Commerce, working briefly in the Office of Business Economics, then in the Far Eastern Division of the Bureau of International Commerce.

He was born on December 1, 1935, in Rochester, New York. Mr. Guenther received his B.A. from the University of Rochester in 1957 and did graduate work at the School of Advanced International Studies of the Johns Hopkins University and at Yale University.

Mr. Beach, who will hold the rank of Ambassador, has been the U.S. Alternate Director of the Asian Development Bank since October 1972. From February 1971 until that time, he was Special Assistant to Ambassador at Large David M. Kennedy. He served with the Treasury Department from June 1969 until 1971 as Deputy Assistant to the Secretary and Director of the Executive Secretariat, then as Assistant to the Secretary.

Born in Kansas City, Missouri, on January 31, 1939, Mr. Beach received his B.A. from Kansas State University in 1962, his M.A. from Johns Hopkins University in 1967, and his Ph.D. from Brown University in 1970. He served as Legislative Assistant to Senator James B. Pearson of Kansas from 1963-65 and spent the 1968-69 academic year in Tempe, Arizona, as an Assistant Professor of Economics at Arizona State University.

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358

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

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for $1.8 billion of 52-week Treasury bills to be dated August 28, 1973, and to mature August 27, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS: (Excepting one tender of $1,200,000)

High	- 91.555	Equivalent annual rate	8.352%
Low	- 91.483	Equivalent annual rate	8.423%
Average	- 91.519	Equivalent annual rate	8.388% 1/

Tenders at the low price were allotted 91%

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted
Boston	$ 30,240,000	$ 5,240,000
New York	2,401,155,000	1,455,210,000
Philadelphia	19,365,000	4,365,000
Cleveland	28,485,000	17,285,000
Richmond	11,900,000	8,400,000
Atlanta	8,120,000	7,575,000
Chicago	261,650,000	166,970,000
St. Louis	57,570,000	26,710,000
Minneapolis	30,160,000	13,160,000
Kansas City	18,100,000	13,040,000
Dallas	32,835,000	10,335,000
San Francisco	157,790,000	71,980,000
TOTALS	$3,057,370,000	$1,800,270,000 2/

1/ This is on a bank discount basis. The equivalent coupon issue yield is 9.09%.

2/ Includes $ 118,220,000 noncompetitive tenders accepted at the average price.

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359

August 22, 1973

FOR IMMEDIATE RELEASE

COUPON RATE ON $2 BILLION TREASURY NOTES
SERIES G-1975

The Secretary of the Treasury announced today an 8-3/8% per annum coupon rate for the $2 billion of Treasury Notes of Series G-1975 announced on August 20 for auction on Friday, August 24. The series title for these notes will be 8-3/8 percent Treasury Notes of Series G-1975. Bids below 99.51 will not be accepted.

360

MEMORANDUM FOR THE PRESS Aug. 23, 1973

The Treasury Department is considering revision of the regulations of the Fiscal Service, to permit increased use of direct payments to banks and other financial organizations for credit to the accounts of employees.

The proposed changes were published in the Federal Register of August 15,1973, and are attached.

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Proposed Rules

This section of the FEDERAL REGISTER contains notices to the public of the proposed issuance of rules and regulations. The purpose of these notices is to give interested persons an opportunity to participate in the rulemaking prior to the adoption of the final rules.

Fiscal Service

[31 CFR Part 209]

PAYMENT TO FINANCIAL ORGANIZATIONS FOR CREDIT TO ACCOUNTS OF EMPLOYEES

The Department of the Treasury finds that it is necessary to revise its existing regulations governing payments to financial organizations for credit to accounts of employees at 31 CFR Part 209 (also appearing as Department Circular No. 1076, Revised), so as to:

(1) Include drawing of checks in favor of financial organizations for any class of recurring payments, as authorized by Public Law 92-366 (31 U.S.C. 492(d)) approved on August 7, 1972;

(2) Emphasize that Civil Service Commission regulations exclusively govern allotments to pay membership dues in labor organizations;

(3) Make mandatory the formerly permissive use of composite checks under certain circumstances for payments of net pay to employees;

(4) Delete certain procedural provisions which are incorporated in the Treasury Fiscal Requirements Manual; and

(5) Make current certain minor, but outdated, provisions.

Accordingly, notice is hereby given pursuant to 5 U.S.C. 553 that the Secretary of the Treasury is considering the revision effective September 30, 1973, under authority of 31 U.S.C. 492 (b) and (d), of Part 209 of Subchapter A, Chapter II of Title 31 of the Code of Federal Regulations, so as to read:

PART 209—PAYMENT TO FINANCIAL ORGANIZATIONS FOR CREDIT TO ACCOUNTS OF EMPLOYEES AND BENEFICIARIES

AUTHORITY: The provisions of this Part 209 issued under R.S. 3620, as amended, 31 U.S.C. 492.

§ 209.1 Scope of regulations.

(a) The regulations in this part govern the regular remittance to financial organizations of Federal payments which are for credit to the accounts of employees and beneficiaries, as defined herein, including payments for:

(1) Full amounts of salaries and wages of civilian employees, and pay and allowances of members of the uniformed services;

(2) Allotments of pay for savings accounts (available hereunder only to civilian employees [1]); and

(3) Recurring annuities and benefits.

(b) The regulations in this part do not supersede, and shall not be used to circumvent, the requirements of particular statutes, Executive orders or other executive branch regulations; for example, see Civil Service Commission regulations at 5 CFR Part 550, Subpart C, issued pursuant to 5 U.S.C. 5525. Savings allotments under the regulations in this part shall not be used as a means to pay dues to labor organizations.

§ 209.2 Definitions.

As used in these regulations:

(a) "Agency" means any department, agency, independent establishment, board, office, commission, or other establishment in the executive, legislative (except the Senate and House of Representatives), or judicial branch of the Government, any wholly owned or controlled Government corporation, and the municipal government of the District of Columbia;

[1] See 32 CFR Part 59—Voluntary Military Pay Allotments, issued pursuant to 37 U.S.C. 701-706, for military allotments for savings.

(b) "Financial organization" means any bank, savings bank, savings and loan association or similar institution, or Federal or State chartered credit union;

(c) "Employee" means (1) when used in reference to allotments of pay for savings accounts, a civilian employee of an agency, and (2) when used otherwise, a civilian employee of an agency or a member of a uniformed service;

(d) "Beneficiary" means a person or persons receiving an annuity or benefit payment or other recurring payment under Federal law, other than a payment of salary or wages or pay and allowances;

(e) "Allotment of pay for a savings account" means an authorization from an employee for a recurring payroll deduction from salary or wages due, in a specified dollar amount, to be remitted to a financial organization of his choice, for credit to his savings account;

(f) "Savings account" means an account (single or joint) for the purchase of shares (other than shares of stock) or for the deposit of savings in any financial organization, the title of which account includes the name of the authorizing employee;

(g) "Net pay" means the amount of salaries or wages of civilian employees and pay and allowances of members of the uniformed services remaining due after all payroll deductions for allotments of pay for savings accounts and other purposes and all other payroll deductions;

(h) "Recurring payment" means a benefit, annuity, or other payment which is made repeatedly at regular intervals.

§ 209.3 Allotments of pay for savings accounts.

(a) Any employee whose place of employment is within the United States may authorize an allotment of pay for a savings account under these regulations, provided that allotments of pay for savings are not otherwise available to the employee under the regulations referred to in § 209.1(b).

(b) The head of an agency shall effectuate such allotments of pay for savings accounts:

(1) If the employee provides the agency with a written request (on a form promulgated by the Treasury or such agency-adapted form as may be approved by the Treasury for the purpose) which designates the financial organization and such financial organization, by endorsement thereon, states its willingness to act in this respect as agent of the employee and to accept, as its expense, the service charge specified in accordance with § 209.8 which is to be deducted from the aggregate total of the allotments remitted;

(2) If the allotment is a fixed amount, in round dollars (no cents), to be deducted in each successive payroll (until canceled by the employee, in writing, or otherwise terminated);

(3) If not more than two such allotments for any employee shall be in effect at any time;

(4) To the extent that the amount of salary or wages becoming due an employee for any pay period thereafter is sufficient to cover (i) in the case of a single allotment, the full amount thereof, or (ii) in the case of two allotments, the aggregate amount of both. In making any determinations under this subparagraph, all payroll deductions otherwise required shall have priority over those authorized by this section; and

(5) Regardless of the manner in which the allotment for savings ultimately will be disposed of by the employee (which is at his own discretion), except that the purpose of the allotment may not circumvent statutes, Executive orders, and other executive branch regulations (see § 209.1(b)).

§ 209.4 Payments of net pay for employees.

(a) Any employee may request that the full amount of net pay due him, in lieu of being paid by check drawn to his order, be paid to him regularly by check drawn in favor of a financial organization of his choice, for credit to his account.

(b) The head of an agency shall authorize the appropriate disbursing officer to pay an employee by sending to the financial organization designated by that employee a check that is drawn in favor of that organization and for credit to the account of that employee. This procedure shall be used only:

(1) If the employee provides the agency with a written request (on a form promulgated by the Treasury or such agency-adapted form as may be approved by the Treasury for the purpose) which designates the financial organization.

(2) For the full amount of net pay becoming due on successive payrolls (until the request is canceled by the employee in writing); and

(3) For payments for credit to any account (single or joint) designated by the employee, the title of which includes the name of the employee as stated on the check.

(c) Whenever, under the procedures set out in paragraph (b) of this section, payments are made by an agency on the same regularly recurring dates to five or more employees who designate the same financial organization, the head of the agency shall authorize the appropriate disbursing officer to draw the check for the total amount in favor of that organization for credit to the accounts of the several employees.

§ 209.5 Recurring payments for beneficiaries.

(a) The head of an agency may authorize the appropriate disbursing officer to make a recurring payment to a beneficiary by sending to the financial organization designated by that beneficiary a check that is drawn in favor of that organization and is for credit to the account of that beneficiary, in lieu of payment by check drawn to his order.

(b) The procedure set out in paragraph (a) of this section may be adopted only:

(1) If the beneficiary to whom the recurring payment is to be made provides the agency with a written request (on a form promulgated by the Treasury or such agency-adapted form as may be approved by the Treasury for the purpose) which designates the financial organization;

(2) For the full amount of the recurring payment becoming due on successive payment dates (until the request is canceled by the beneficiary in writing); and

(3) For payments for credit to an account, designated by the beneficiary to whom the recurring payment is to be made, the title of which includes the name of the beneficiary as stated on the check, or, in the case of payments made jointly to more than one individual, the name of one beneficiary as stated on the check.

(c) Whenever, under the procedures set out in paragraph (a) of this section, recurring payments are made to two or more beneficiaries who designate the same financial organization, the head of the agency, may, after consultation with, and approval by, the Fiscal Assistant Secretary of the Treasury, authorize the appropriate disbursing officer to draw a single check for the total amount in favor of that organization for credit to the accounts of the several beneficiaries.

(d) The procedures set out in this section shall not be used for allotting a part of a recurring payment or for effectuating an assignment of a recurring payment.

(e) The Fiscal Assistant Secretary will initiate, as appropriate, joint Treasury-agency consideration of application of the procedures set forth in this section.

§ 209.6 Identification of financial organization office to receive remittances for allotments of pay.

(a) Except as authorized in accordance with paragraph (b) of this section, remittances covering allotments of pay for savings accounts in behalf of all employees designating the same financial organization shall be forwarded uniformly to a single office of such financial organization notwithstanding the fact that the employees may otherwise make deposits to their accounts at different branch offices of such financial organization. In executing the form required pursuant to § 209.3, each employee will be expected to ascertain from the financial organization the address of its single office which is to receive remittances. In any event, the financial organization, in executing the form, shall:

(1) Review the address inserted and, if necessary, correct it to conform with the requirements of this section;

(2) Insert, in the space provided, the "employer identification number" assigned to it by the Internal Revenue Service, Department of the Treasury. Such identification numbers, which are susceptible of universal application in identifying each individual financial organization as a whole, will be used in agency payroll systems to facilitate the assembly of all of its payroll deductions

363

applicable to the same financial organization; and

(3) Identify the block specified on the form which indicates conformance with the requirement for a single remittance point in the financial organization.

(b) A financial organization which maintains its savings accounts at branch offices only and which cannot comply with the requirements of paragraph (a) of this section, on the basis that its own internal transmission of deposit credits from a single remittance point to its respective branch offices is impracticable, may certify to that effect by identifying the block provided for this purpose on the form required by § 209.3. Such certification shall serve to waive the requirements of paragraph (a) of this section on the basis that the financial organization cannot otherwise agree to accept remittances for credit to accounts of employees designating such financial organization. Such financial organization shall:

(1) Establish a standardized series of numeric codes consisting of three digits (001 through 999) to be used uniformly in identifying each of its branch offices required to receive remittances;

(2) Insert, in the space provided on the form, its "employer identification number" and, as a parenthetical suffix, its three-digit code identifying the applicable branch office consistent with the addresses of that office as shown on the form; and

(3) Make such inter-office adjustments of deposit credits as may become necessary in the event a remittance to one branch office includes credit for a particular savings account at a different branch office, whether by reason of an inconsistency in the initial designation of the branch office code on the form or otherwise.

§ 209.7 Depositor account numbers.

Based on the forms submitted by employees and beneficiaries pursuant to §§ 209.3, 209.4 and 209.5, agencies shall use depositor account numbers supplied by the financial organization as an identification of the account to be credited, in addition to the name and social security account number of the employee or beneficiary. Records supporting checks issued pursuant to § 209.3, § 209.4(c) and § 209.5(c) shall be so identified. Individual checks issued pursuant to § 209.4(b) and § 209.5(a) shall be identified, as a minimum, with the name and depositor account number of the employee or beneficiary. The United States shall not assume responsibility for the correctness of such depositor account numbers, and the name and/or social security account number of the employee or beneficiary to whom payment is to be made will govern the crediting of the account.

§ 209.8 Service charge.

The Government's cost in the administration of the system established by § 209.3 shall be recovered by each agency on the basis of standard (Government-wide) rates established in these regulations. The total service charge applicable to a remittance to a financial organization, derived by application of the standard rates, shall be automatically collected from the financial organization by deduction from the total amount to be remitted.

(a) Subject to revision from time to time on the basis of studies of Government-wide costs incurred, the standard rates shall be:

(1) Six (6) cents for each payroll deduction stated on the record which is to accompany the aggregate remittance (for all administrative and payrolling costs in the agency); plus

(2) Twelve (12) cents for each remittance, as a single charge for the entire record accompanying the remittance, regardless of the number of payroll deductions listed (for all check preparation and mail preparation costs in the disbursing office, including postage).

(b) In accordance with the provisions of section 501 of the Act of August 31, 1951, 65 Stat. 290 (31 U.S.C. 483a), the total service charge collected pursuant to this section shall be covered into the Treasury as miscellaneous receipts unless the agency has statutory authority otherwise to dispose of the credit.

§ 209.9 Financial organization as agent.

A financial organization which receives checks under the procedure set out in §§ 209.3, 209.4 and 209.5 does so in each case as the agent of the employee or beneficiary who has designated the financial organization to receive the check and credit his account. Such a financial organization may revoke its agency by notice to the employee or beneficiary. The death of that employee or beneficiary revokes the authority of the financial organization to credit the amount to the account of that individual. In the case of a check covering a payment to one employee or beneficiary, the proceeds of which cannot be credited to the account because of death or any other reason, the financial organization shall promptly return the check to the issuing disbursing officer or remit its own check in an equal amount, with a statement in either case identifying the reason therefor and the individual. In the case of a check covering payment to more than one employee or beneficiary, a portion of which cannot be credited to an account because of death or for any other reason, the financial organization shall promptly remit to the agency responsible for making payment a check in an amount equal to that portion which could not be properly credited to the account, with a statement identifying the individual and the reason for refund.

§ 209.10 Acquittance to the United States.

(a) A financial organization which receives checks under the procedure set out in §§ 209.3, 209.4 and 209.5 shall comply with the provisions of 31 CFR Part 360—Indorsement and Payment of Checks Drawn on the Treasurer of the United States, in particular 31 CFR 360.8. A financial organization's endorsement shall constitute a guaranty of the continued existence of the beneficiary for whom it receives payment.

(b) Payment by the United States of a check drawn in favor of and properly endorsed by the financial organization designated by an employee or beneficiary to whom payment is to be made shall, if the check or accompanying record properly specifies that employee's or beneficiary's name and/or social security account number, constitute a full acquittance to the United States for the amount of such payment.

§ 209.11 Financial organization not Government depositary.

A financial organization to which a check is drawn under the procedures set out in §§ 209.3, 209.4 and 209.5 does not thereby become a Government depositary and shall not advertise itself as one because of that fact.

§ 209.12 Procedural instructions.

Procedural instructions for the guidance of agencies in the implementation of these regulations and a new form to request the remittance of recuring payments to financial organizations will be issued by the Commissioner of Accounts. The several forms presently in use to request remittance of the full amount of net pay to a financial organization, and the form presently used to request an allotment of pay for credit to a savings account with a financial organization (Standard Form No. 1198), will be continued.

Prior to adoption of the proposed revision, consideration will be given to any data, views, or arguments submitted to the Commissioner of Accounts, U.S. Department of the Treasury, Washington, D.C. 20226, and received not later than September 14, 1973. Pursuant to 31 CFR 1.4(b), 36 FR 13835, comments submitted in response to this notice are available to the public upon request therefor unless confidential status for the submission has been requested and approved.

[SEAL] JOHN K. CARLOCK,
Fiscal Assistant Secretary.

AUGUST 10, 1973.

[FR Doc.73-16994 Filed 8-14-73;8:45 am]

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

3-4

FOR IMMEDIATE RELEASE August 23, 1973

TREASURY ANNOUNCES ACTIONS ON
THREE INVESTIGATIONS UNDER THE ANTIDUMPING ACT

Assistant Secretary of the Treasury Edward L. Morgan announced today three actions on three investigations under the Antidumping Act of 1921, as amended.

In the first case, there was an initiation of an antidumping investigation and in the second and third cases, there was a finding of dumping. Notice of these decisions will appear in the Federal Register of Friday, August 24, 1973.

In the first case, Assistant Secretary Morgan announced the initiation of an antidumping investigation on imports of papermaking machinery and parts thereof from Canada. This announcement follows a summary investigation conducted by the U.S. Customs Service after receipt of a complaint alleging that dumping was taking place in the United States. Papermaking machinery valued at $5.7 million has been ordered from Canada for importation into the United States.

In the second and third cases, the Treasury has issued dumping findings with respect to printed vinyl film from Brazil and Argentina. Printed vinyl film is produced in a variety of colors and pattern designs and is used for shower curtains, draperies, and many other purposes. On April 19, 1973, the Treasury Department determined that this merchandise from Brazil and Argentina was being sold at less than fair value within the meaning of the Antidumping Act. On July 18, 1973, the Tariff Commission advised the Treasury that there was a likelihood of 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 film from Brazil and Argentina which have dumping margins. During the period of October 1971 through January 1973, imports of printed vinyl film from Brazil were valued at approximately $177,000. Imports of this merchandise from Argentina during the period of January 1971 through January 1973 were valued at approximately $325,000.

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

365

FOR IMMEDIATE RELEASE August 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 $ 4,300,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing September 6, 1973, in the amount of $4,301,495,000 as follows:

91-day bills (to maturity date) to be issued September 6, 1973, in the amount of $2,500,000,000, or thereabouts, representing an additional amount of bills dated June 7, 1973, and to mature December 6, 1973 (CUSIP No. 912793 SG2) originally issued in the amount of $ 1,707,440,000 the additional and original bills to be freely interchangeable.

182-day bills, for $ 1,800,000,000, or thereabouts, to be dated September 6, 1973, and to mature March 7, 1974 (CUSIP No. 912793 TB2).

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, Friday, August 31, 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 September 6, 1973, in cash or other immediately available funds or in a like face amount of Treasury bills maturing September 6, 1973. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder must include in his income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

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

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

364

FOR RELEASE 6:30 P.M. August 24, 1973

RESULTS OF TREASURY NOTE AUCTION

The Treasury has accepted $2.0 billion of the $4.3 billion of tenders received for the 2-year 1-month 8-3/8% notes auctioned today. The range of accepted competitive bids was as follows:

	Price	Approximate Yield
High	101.05 1/	7.80%
Low	100.70	7.99%
Average	100.80	7.94%

1/ Excepting one tender of $15,000

The $2.0 billion of accepted tenders includes 50 % of the amount of notes bid for at the low price, and $ .5 billion of noncompetitive tenders accepted at the average price.

A

FOR RELEASE MONDAY, AUGUST 27, 1973

U.S. VIEWS ON MAJOR ISSUES

OF MONETARY REFORM

B

TABLE OF CONTENTS

C

U.S. VIEWS ON MAJOR ISSUES OF MONETARY REFORM

At the most basic and fundamental level, monetary reform is an effort to reach agreement on a code of conduct to govern behavior in an interdependent world. While each nation prefers a maximum freedom of action, it is inevitable that one country's actions will impinge on another. To avoid conflict which would be detrimental to all and to foster beneficial cooperation, there needs to be agreed rules, specified with sufficient clarity and broadly perceived to be equitable. At present, the monetary system is functioning under an exchange rate regime in which some countries are floating, individually or jointly, while others maintain established rates, either par or central values. But international monetary cooperation, to a greater extent than desirable, is taking place on the basis of ad hoc decisions, in the absence of agreed rules or safeguards. While these arrangements are a viable interim solution, they do not represent either long-term reform or a satisfactory substitute for agreed rules. The task of the Committee of Twenty is to develop rules reflective of today's realities and needs.

At the 1972 annual meeting of the International Monetary Fund, President Nixon and Secretary Shultz outlined comprehensive U.S. proposals for monetary reform. These proposals have been further elaborated in the C-20 discussions, notably in a paper circulated to the C-20 Deputies by the U.S. in November 1972. In developing its positions and proposals on issues in reform, the U.S. has sought arrangements which are equitable in their application to all countries and which provide clear and effective rules and disciplines to guide the operations of the system, which also preserve the maximum latitude for national choice consistent with a stable and sustainable system. Our proposals neither give special rights to nor impose special obligations on any country or group of countries. They have been designed to give equal treatment to all countries, with comparable rules for all--whether large or small, developed or developing, surplus or deficit, reserve currency country or not.

Most of the main issues involved have had at least an initial discussion in the C-20, under the general headings of the adjustment process; the system of reserve assets; the special interests of developing countries in reform; the interrelations between monetary arrangements and those in the trade, investment and aid spheres; and structure of the IMF. This memorandum follows this broad division of reform issues, with a brief discussion of various topics in each area which are a key part of the U.S. proposals or which have received considerable debate in the C-20.

THE ADJUSTMENT PROCESS

System of Adjustment

The U.S. position is that a reformed system must provide equitable and effective incentives and disciplines for balance-of-payments adjustment by both surplus and deficit countries. Most countries have indicated a desire that the reformed system be based on stable but adjustable par values supported by convertibility. Under such a system, payments imbalances would normally be reflected in movements of "primary" reserve assets (Special Drawing Rights, gold, and reserve positions in the IMF) from one country to another. We have incorporated such arrangements into our plans, in proposing that disproportionate movements in reserves--as the most comprehensive, the most readily available and the least ambiguous evidence of payments disequilibria--be used to provide an objective indication of payments imbalance and to establish a presumption that adjustment is needed. The indicator system would not be automatic in the sense that adjustment must inevitably follow a signal from the indicator--the international community would have authority to "override" the indicator in case it was judged to be wrong--but a signal from the indicator would create a strong presumption that effective adjustment action would be undertaken. The indicator system would provide incentives for adjustment. It would also, if a country failed to undertake effective and appropriate adjustment policies, provide guidance for the application of international disciplines and pressures. We have proposed, for example, that in the absence of a truly effective combination of corrective measures by a chronic surplus country, other countries should ultimately be free to protect their interests by a surcharge on imports from that country.

The indicator arrangements proposed by the U.S. would provide a degree of certainty that needed payments adjustments will be undertaken--a certainty which is required to ensure the overall consistency and sustainability of the system and to balance the certainty in convertibility rights and obligations desired by most other countries. We believe that the desired tolerance of the system for payments imbalances must be made consistent with the availability of reserves to finance such imbalances, or the system will again collapse under strain. The reserve indicator provides a means of assuring that necessary consistency. These considerations are discussed more fully in a U.S. paper circulated to the C-20 Deputies in May.

Adjustment Policies

The U.S. proposals would leave maximum discretion to national authorities in the selection of adjustment policies. The functions of a reserve indicator would be only to point to the need for payments adjustment and to help assure that adjustment is undertaken--not to specify what form the adjustment should take. Countries would be able to choose from a range of internationally acceptable measures--domestic policies, trade liberalization, capital liberalization, increased aid or exchange rate changes--those best suited to their own particular needs and circumstances.

Within the framework of a system allowing wide policy choice, however, the U.S. proposals are oriented strongly toward encouraging freer trade and open capital markets. If trade controls are permitted temporarily in extreme cases on balance-of-payments grounds, they should be in the form of surcharges or across-the-board taxes. Controls on capital flows should not be allowed to become a means of maintaining a chronically undervalued currency.

Role of Consultations

A number of countries have expressed the view that while indicators may be a useful innovation in the system, they should not be used to establish a presumption that adjustment is needed nor should they guide the use of international pressures or inducements to adjust. It is argued that indicators should not do more than point to a situation requiring review and IMF consultation.

We do not believe that a system placing such heavy reliance on the consultative process is workable nor desirable. Consultations were a major element of the system in the past, and the U.S. itself has placed emphasis on the need for improved and strengthened consultative procedures in the IMF. Nevertheless, consultations alone cannot provide the needed certainty in adjustment arrangements. Adjustment decisions are difficult for any government, and there is a tendency to postpone and avoid such decisions until long after the time adjustment should have been initiated. Equally, international groups are reluctant to deal promptly with difficult and politically sensitive adjustment questions. Without objective indicators there is a danger that needed actions will not be taken. We believe it is much better to get advance agreement in principle that when certain internationally agreed indicators, recognized as being objective, signal adjustment is needed, there will be a strong presumption that appropriate measures will be adopted--but also recognizing there might be valid reasons for overriding the indicators in exceptional cases.

Exchange Rate Regime

Consistent with our view that the future system must avoid the huge and prolonged imbalances of the past, we believe that the exchange rate mechanism, an important instrument of adjustment, must be made more flexible and usable than it was under the Bretton Woods system. If the strictures against competitive devaluation were a key feature of Bretton Woods, similar strictures against competitive undervaluation must play an important role in the future. We agree with other countries that stable but adjustable par values should be the "center of gravity" of the new system, and that wider margins of exchange rate fluctuation about those values should be incorporated as a permanent feature of the system. But parities must not be allowed to again become grossly inappropriate, and more timely adjustments will be required. Also, we believe that countries should be able to float their exchange rates, if that course is best suited to their needs, subject to international surveillance and in conformance with internationally agreed standards.

CONVERTIBILITY ARRANGEMENTS AND RESERVE ASSETS IN THE SYSTEM

Convertibility Arrangements

The U.S. has proposed a system of general convertibility in which each country maintaining a par value or central rate would stand ready to convert foreign official balances of its currency into primary reserves (or the currency of the country requesting conversion). All countries would have the same obligation to assure convertibility of their currencies, and all would have the right to present currency balances to the issuing country for conversion into primary reserve assets. In order to ensure that no country in chronic surplus could place inordinate strains on the system through the convertibility mechanism, we would place limits on the right of each country to accumulate primary reserves. Such limits would be related to the overall availability of primary reserves in the system.

Special Drawing Rights

The U.S. position is that the SDR should take on a central role in the system--as the "numeraire" (or unit of account) and as the main reserve asset--and that the system's dependence on gold and currencies should diminish in the future. In order to facilitate an expanded role for the SDR, we have proposed that the various encumbrances on that instrument--holding limits, requirement of need, designation, etc.--be reduced or eliminated.

Currencies

We believe that in the framework of a convertibility system the option of holding currencies can provide an important element of elasticity for the system. A number of countries wish to have freedom to hold foreign exchange balances. The system should be flexible enough to accommodate substantial short-term and possibly reversible capital flows, without inducing countries to undertake unwarranted adjustments or impose restrictive measurs. Within limits--which would be determined by the placement of the adjustment indicators in the U.S. proposal--the volume of world reserves should be capable of expanding during brief periods of strain. This would not be possible under rigid arrangements of "asset settlement"--i.e., in which all imbalances would be settled by transfer of assets, and not through building up of currency balances. A system which did not provide a degree of elasticity would, in our view, be prone to severe pressures and possible breakdown.

Gold

From the outset of the reform negotiations, the U.S. has maintained the view that the historic decline in gold's role should continue, although we recognize that it cannot be demonetized overnight. Our position is based on the view that the limited supply of gold and competing private demand result in an availability of gold for official reserves which is wholly unrelated to the system's needs. Provision of liquidity by means of official price changes would be inherently destabilizing and would provide disproportionate benefits to a few without consideration of the overall needs of the system. The speculative pressures and recent price gyrations in private markets are further evidence that gold, or any other commodity, cannot provide a satisfactory and stable basis for the monetary system.

A very few governments believe gold should retain a central role in the system, and a number of countries are concerned with the "freezing" of official gold holdings that has occurred with the development of large dispartity between private and official prices. However, we believe that most other countries share the view that arrangements can be developed which would provide for a continuing but declining role for gold and that the arrangements developed must not jeopardize the agreed objective of making the SDR the principal reserve asset. Discussions on this subject are continuing.

Intervention Arrangements

Under the U.S. proposals, it is assumed that currency holdings would not be concentrated in one or two currencies as in the past. We have proposed that at least the major countries adopt a system of exchange market intervention similar in many respects to that presently used by the countries of the European Community--"multicurrency intervention."

Under such a system, countries would have responsibility for intervention in all of the participating currencies. The dollar would no longer be the only or primary intervention currency in the system, and foreign exchange accruals would no longer be concentrated in dollars. Such intervention arrangements would be desirable in that they would be more symmetrical than the old dollar intervention system and would permit the U.S. to avail itself of the wider margins now available to other countries.

Consolidation and Funding

A number of ideas have been put forward on possible "consolidation" or "funding" of a portion of outstanding currency balances. We feel that the question of past accruals of currency balances is secondary to the need to develop a satisfactory system of adjustment for the future. Nevertheless, we agree that some means of dealing with part of these balances may be desirable from the viewpoint of the system as a whole, and such proposals should receive careful study. The C-20 has asked for specific proposals from its members, and these will be considered in due course.

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SPECIAL INTERESTS OF THE DEVELOPING COUNTRIES

SDR-Aid Link

The key issue of special interest to the developing countries is the question of establishment of a link between reserve creation and development assistance. Numerous schemes have been put forward for creation of an "SDR-Aid Link," and most of the developing countries are agreed among themselves that reform should bring more development assistance through the SDR mechanism.

While we support the objective of an enlarged flow of development resources, we are extremely dubious about proposals to use the SDR for that purpose. We doubt that a link can be established which would not weaken confidence in the SDR and thereby detract from its ability to serve its main function--that of the central monetary instrument in the system. We question the impact of a link on the operations of the adjustment process. We have doubts that a link would actually provide significantly more resources to the LDC's, and we would be most hesitant to risk critical damage to the SDR for possibly marginal progress in the area of development assistance. And we question the desirability of a link--particularly in the form apparently prefered by most LDC's, which does not relate assistance to specific, approved development projects and programs--as an instrument of aid.

LDC Stake in Reform

More generally, we believe that the LDC's have a strong interest in overall reform of the system, and that questions such as the link are really tangential to the key issues of reform. The LDC's stand to gain as much or more than developed countries from a prosperous and expanding world economy, which in turn needs a more smoothly operating, effective and equitable system of adjustment. Protracted and destabilizing imbalances, left uncorrected, inevitably lead to restrictions and protectionist pressures, and may cause countries ultimately to take undesirably harsh domestic policy measures. All of these responses reflect inefficiencies in the adjustment process--and only a small decline in world trade and investment, resulting from such inefficiencies, would more than offset any conceivable gains to the LDC's from an aid-link.

INTERRELATIONS BETWEEN MONETARY ARRANGEMENTS, TRADE, INVESTMENT AND DEVELOPMENT ASSISTANCE

As outlined in President Nixon's address to the IMF Governors in September 1972, the U.S. views monetary reform as one vital part of a total reform of international economic affairs, encompassing trade and investment opportunities as well. Narrowly, monetary questions cannot, in the end, be fully separated from issues, rules and practices in other areas of the world economy. We have pressed and will continue to press for a comprehensive approach to economic reform in order to help ensure that the rules in the various spheres are consistent and, to the extent possible, mutually reinforcing.

Largely at the insistence of the United States, the mandate of the C-20 reflects this comprehensive approach. In considering and reporting on questions in the monetary area, the C-20 is to "give full attention to the interrelation between these matters and existing or prospective arrangements among countries, including those that involve international trade, the flow of capital, investment, or development assistance, that could affect attainment of the purposes of the Fund under the present or amended Articles."

In some instances, such as the use of trade or capital controls for balance-of-payments purposes, the interrelations are so close that the C-20 will have to deal directly with the matter. And, as indicated above, the C-20 is considering directly some issues in the area of development finance. In other cases, discussions and negotiations can take place in other bodies, such as the GATT and the OECD, to deal with other governmental practices involving trade and investment which can distort economic relationships or impede adjustment just as direct balance-of-payments restrictions do. The C-20 has communicated with other bodies to indicate its general interest in such questions, and representatives of several international institutions--the OECD, the GATT, the IBRD and UNCTAD--participate as observers in the C-20 deliberations.

The U.S. position is that the monetary negotiations need to be supplemented by negotiations to achieve greater equity and uniformity with respect to the use of subsidies and fiscal or administrative pressures on trade and investment transactions. The basic rules and practices in the various areas need to be made consistent. But we have not suggested that the monetary negotiations must await the result of the detailed trade negotiations in the GATT, dealing with specific products and specific restraints, nor that those trade negotiations must wait on monetary reform.

STRUCTURE OF THE IMF

The United States' concept of reform entails a strengthened IMF in at least two senses. First, a strengthening of the basic rules of the system will provide more effective international disciplines. The more clearly these are agreed, set down and fully understood, the more effective can the Fund be as the custodian of the system. Political acceptance of and support for Fund decisions would also increase if those decisions are based on previously agreed codes of conduct.

Second, as any code of conduct will require judgment in application involving important and sensitive policy decisions, the Fund should be strengthened by providing an input from, and the assistance of, suitable people from home governments who have political stature and responsibility. While such people cannot participate in everyday Fund activities, there should be some way for them to participate more effectively within the IMF framework in determining policies and actions which have a crucial bearing on the monetary system.

To achieve this end, several alternative structural reforms can be envisioned--for example, a revamped Executive Board, a new Executive Committee, a continuation of the Committee of Twenty and/or the Deputies. The goal would be to have senior and politically responsible officials, at the Deputies' to Ministers' level, and possibly also at the Ministers' level, meet periodically in a group much smaller than the Annual Meeting of 120 Governors. As yet there has been no extensive discussion of this matter in the C-20.

Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

I

FOR RELEASE MONDAY,
AUGUST 27, 1973

NOTE TO CORRESPONDENTS

The Treasury has had a number of requests for information concerning the U.S. positions on the various issues of monetary reform in preparation for the IMF Annual Meeting in Nairobi, Kenya. The enclosed compilation provides, in response to these queries, a broad outline of U.S. objectives in the current monetary reform negotiations as well as the U.S. position on the different substantive issues.

Table of Contents

J

STATEMENTS of

THE PRESIDENT
OF THE UNITED STATES

and

THE SECRETARY
OF THE TREASURY

before

The 1972 annual meetings of the Boards of Governors

of the

International Monetary Fund

and the

International Bank for Reconstruction and Development and Affiliates

Washington, D.C.

September 1972

STATEMENTS of

THE PRESIDENT
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Washington, D.C. September 1972


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THE PRESIDENT'S STATEMENT

Text of an Address by the President
at the
1972 Annual Meetings
of the
Boards of Governors
of the
International Monetary Fund
and the
International Bank for Reconstruction and Development
and Affiliates
Sheraton Park Hotel
September 25, 1972

It is customary in addressing such a significant international gathering to say that we are participating in a great moment in history. Great moments in history are easy to perceive—headlines blaze, and the world is riveted to television screens as world leaders meet.

But great movements in history are much harder to perceive while we are living through them. The action is slower, less dramatic, infinitely more complex, as changing circumstances and the new needs of people alter the behavior of nations.

I am convinced, on the basis of the evidence of the past year, that we are not only participating in a great moment in history but that we are witnessing and helping to create a profound movement in history.

That movement is away from the resolution of potential conflict by war, and toward its resolution through peaceful means.

The experienced people gathered in this room are not so naive as to expect the smoothing-out of all differences. We anticipate that the potential for conflict will exist as long as men and nations have different interests, different approaches to life, different ideals.

Therefore, we must come to grips with the paradoxes of peace:

As the danger of armed conflict between major powers is reduced, the potential for economic conflict is increased.

As the possibility of peace grows stronger, some of the original ties that first bound our postwar alliances grow weaker.

As nations around the world gain new economic strength, the points of commercial contact multiply along with the possibilities of disagreement.

There is another irony we should all recognize. With one exception, the nations gathered here whose domestic economies are growing so strongly today can trace much of their postwar growth to the expansion of international trade.

Why, then, is the United States—seemingly with the least at stake—in the forefront of those working for prompt and thorough-going reform of the international monetary system, with all that will mean for the expansion of trade now and in the future?

The one exception, of course, is the United States —the industrial nation with by far the smallest percentage of its gross national product in world trade.

One reason, of course, is our national self-interest. We want our workingmen and women and businessmen and women to have a fair chance to compete for their share of the expanding trade between nations. A generation ago, we deliberately set out to help our former enemies as well as our weakened allies so that they could gain the economic strength which would enable them to compete with us in world markets. Now we expect our trading partners to help bring about equal competition.

There is another reason, more far-reaching and fundamental, that motivates the United States in pressing for economic and monetary reform.

Working together, we must set in place an economic structure that will help and not hinder the world's historic movement toward peace.

We must make certain that international commerce becomes a source of stability and harmony rather than a cause of friction and animosity.

Potential conflict must be channeled into cooperative competition.

That is why the structure of the international monetary system and the future system of world trade are so central to our concerns today.

The time has come for action across the entire front of international economic problems. Recurring monetary crises, such as we have experienced all too often in the past decade; unfair currency alignments and trading arrangements, which put the workers of one nation at a disadvantage with workers of another nation; great disparities in development that breed resentment; a monetary system that makes no provision for the realities of the present and the needs of the future—all these not only injure our economies, they also create political tensions that subvert the cause of peace.

There must be a thoroughgoing reform of the world monetary system, to clear the path for the healthy competition of the future.

We must see monetary reform as one vital part of a total reform of international economic affairs, encompassing trade and investment opportunity as well.

We must create a realistic code of economic conduct to guide our mutual relations—a code which allows governments freedom to pursue legitimate domestic objectives but which also gives them good reason to abide by agreed principles of international behavior.

Each nation must exercise the power of its example in the realistic and orderly conduct of internal economic affairs, so that each nation exports its products and not its problems.

We can all agree that the health of the world economy and the stability of the international economic system rest largely on the successful management of domestic economies.

The United States recognizes the importance of a strong, non-inflationary domestic economy, both in meeting the needs of our own citizens and in contributing to a healthy world economy. We are firmly committed to reaching our goals of strong growth, full employment and price stability.

We are encouraged by the record of our current economic performance. We are now experiencing one of the lowest rates of inflation, and highest rates of real economic growth, of any industrial nation.

Recent gains in the productivity and the real income of American workers have been heartening. We intend to continue the policies that have produced these gains.

We also recognize that, over the longer term, domestic policies alone cannot solve all international problems. Even if all countries achieved a very large measure of success in managing their own economies, strains and tensions could arise at points of contact with other economies.

We cannot afford a system that almost every year presents a new invitation to a monetary crisis. That is why we face the need to develop procedures for prompt and orderly adjustment.

It is easy enough to say "prompt and orderly adjustment." But that phrase encompasses the real problems of working men and women, the fears and hopes of investors and managers of large and small businesses and, consequently, the concern of the political leadership of every nation. No nation should be denied the opportunity to adjust, nor relieved of the obligation to adjust.

In the negotiations ahead, there will be differences of opinion and approach. Immediate interests may appear to conflict. There will be times when impasses develop that may seem impossible to resolve.

But the world has had some experience recently with long, hard negotiations — for example, the strategic arms limitation agreements signed by the Soviet Union and the United States.

That was bilateral negotiation, between two nations and not among 124. But its complexity seemed almost infinite; the obstacles had been hardening for 25 years; the issue of national security was as sensitive a matter as can exist between world powers.

We came to an agreement in Moscow this year because the issue that united us—seeking an end to the wasteful and dangerous arms race—was greater than the issues that divided us.

We reached agreement because we realized that it was impossible for either side to negotiate an advantage over the other. The only agreement worth making was one in which each side had a stake in keeping.

Those two principles can guide us in building the monetary system of the future.

We recognize that the issues that divide us are many and serious. But the impetus that will make this negotiation successful is the force that unites us; A common need to establish a sound and abiding foundation for commerce, leading to a better way of life for all the citizens of the world.

That common need, let us call it the world interest, demands a new freedom of world trade and a new fairness in international economic conduct.

It is a mark of our maturity that we now see that an unfair advantage gained in an agreement today only sabotages that agreement tomorrow. The only system that can work is one that each nation has an active interest in making work.

The need is self-evident. The will to reform the monetary system is here in this room. And in a proverb that has its counterpart in almost every language—where there is a will, there is a way.

We are gathered to create a responsive monetary system—responsive to the need for stability and openness, and responsive to the need of each country to reflect its unique character.

In this way we bring to bear one of the great lessons of federalism: that often the best way to enforce an agreed-upon discipline is to let each member take action to adhere to it in the way that is best suited to local character, stage of development and economic structure.

For its part, the United States of America will continue to rise to its world responsibilities, joining with other nations to create and participate in a modern world economic order.

We are secure enough in our independence to freely assert our interdependence.

These are the principles I profoundly believe should and will guide the United States in its international economic conduct:

We shall press for a more equitable and open world of trade.

We shall meet competition rather than run away from it.

We shall be a stimulating trading partner and a straight-forward bargainer.

We shall not turn inward and isolationist.

In turn we shall look to our friends for evidence of similar rejection of isolationism in economic and political affairs.

Let us all resolve to look at the ledgers of international commerce with new eyes—to see that there is no heroism in a temporary surplus nor villainy in a temporary deficit, but to see that progress is possible only in the framework of equilibrium. In this regard we must take bold action toward a more equitable and open world trading order.

Like every leader of the nations represented here, I want to see new jobs created all over the world, but I will not condone the export of jobs out of the United States caused by an unfairness built into the world's trading system.

Let all nations in the more advanced stages of industrial development share the responsibility of helping those countries whose major development lies ahead, and forego the temptation to use that help as an instrument of discrimination or rivalry.

Far more is at stake here than the mechanics of commerce and finance. At stake is the chance to add genuine opportunity to the lives of people in all nations, the chance to add stability and security to the savings and the earnings of hundreds of millions of people, and the chance to add economic muscle to the sinews of peace.

I have spoken this morning in general terms about how we can advance our economic interdependence. Later this week, Secretary Shultz will outline a number of proposals which represent the best thinking of my top economic advisers. I commend these to you for careful consideration.

The word "economics," traced to its Greek root, means "the laws of the house."

This house we live in—this community of nations—needs far better laws to guide our future economic conduct. Every nation can prosper and benefit working within a modern world economic order it has a stake in preserving.

Very little of what is done in these negotiations will be widely understood or generally appreciated. But history will record the vital nature of the challenge before use. I am confident that the men and nations gathered here will seize the opportunity to create a monetary and trading system that will work for the coming generation—and will help to shape the years ahead into a generation of peace.

THE SECRETARY'S STATEMENT

Statement by the Honorable George P. Shultz
The Secretary of the Treasury
of the United States of America
at the
1972 Annual Meetings
of the
Boards of Governors
of the
International Monetary Fund
and the
International Bank for Reconstruction and Development
and Affiliates
Tuesday, September 26, 1972

NEEDED: A NEW BALANCE IN INTERNATIONAL ECONOMIC AFFAIRS

Mr. Chairman, Mr. Managing Director, Mr. President, Fellow Governors, Distinguished Guests:

The nations gathered here have it in their power to strike a new balance in international economic affairs.

The new balance of which I speak does not confine itself to the concepts of a balance of trade or a balance of payments.

The world needs a new balance between flexibility and stability in its basic approach to doing business.

The world needs a new balance between a unity of purpose and a diversity of execution that will permit nations to cooperate closely without losing their individuality or sovereignty.

We lack that balance today. Success in the negotiations in which we are engaged will be measured in terms of how well we are able to achieve that balance in the future.

I anticipate working closely and intensively with you to that end, shaping and reshaping the best of our thinking as we proceed in full recognition that the legitimate requirements of each nation must be meshed into a harmonious whole.

In that spirit, President Nixon has asked me to put certain ideas before you.

In so doing, I must necessarily concentrate my remarks today on monetary matters. However, I am deeply conscious that, in approaching this great task of monetary reform, we cannot neglect the needs of economic development. I am also conscious that the success of our development efforts will ultimately rest, in large measure, on our ability to achieve and maintain a monetary and trading environment in which all nations can prosper and profit from the flows of goods, services and investment among us.

The formation of the Committee of Twenty, representing the entire membership of the Fund, properly reflects and symbolizes the fact that we are dealing with issues of deep interest to all members, and in particular that the concerns of developing countries will be fully reflected in discussions of the reform of the monetary system.

As we enter into negotiations in that group, we have before us the useful Report of the Executive Directors, identifying and clarifying some of the basic issues which need to be resolved.

We also look forward to participation by other international organizations, with each contributing where it is most qualified to help. The challenge before us calls for substantial modification of the institutions and practices over the entire range of international economic cooperation.

There have already been stimulating contributions to our thinking from a wide variety of other sources—public and private. I have examined with particular care the statements made over the past few months by other Governors individually and the eight points which emerged from the deliberations of the Finance Ministers of the European Community.

Drawing from this interchange of views, and building upon the Smithsonian Agreement, we can now seek a firm consensus for new monetary arrangements that will serve us all in the decades ahead. Indeed, I believe certain principles underlying monetary reform already command widespread support.

First is our mutual interest in encouraging freer trade in goods and services and the flow of capital to the places where it can contribute most to economic growth. We must avoid a breakup of the world into antagonistic blocs. We must not seek a refuge from our problems behind walls of protectionism.

The pursuit of the common welfare through more open trade is threatened by an ancient and recurring fallacy. Surpluses in payments are too often regarded as a symbol of success and of good management rather than as a measure of the goods and services provided from a nation's output without current return.

We must recognize, of course, that freer trade must be reconciled with the need for each country to avoid abrupt change involving serious disruptions of production and employment. We must aim to expand productive employment in all countries—and not at one another's expense.

A second fundamental is the need to develop a common code of conduct to protect and strengthen the fabric of a free and open international economic order.

Such basic rules as "no competitive devaluation" and "most-favored nation treatment" have served us well, but they and others need to be reaffirmed, supplemented and made applicable to today's conditions. Without such rules to guide us, close and fruitful cooperation on a day-to-day basis would not be possible.

Third, in shaping these rules we must recognize the need for clear disciplines and standards of behavior to guide the international adjustment process—a crucial gap in the Bretton Woods system. Amid the debate about the contributing causes of past imbalances and the responsibility for initiative toward correction, sight has too often been lost of the fact that adjusment is inherently a two-sided process—that for the world as a whole, every surplus is matched by a deficit.

Resistance of surplus countries to loss of their surpluses defeats the objective of monetary order as surely as failure of deficit countries to attack the source of their deficits. Any effort to develop a balanced and equitable monetary system must recognize that simple fact; effective and symmetrical incentives for adjustment are essential to a lasting system.

Fourth, while insisting on the need for adjustment, we can and should leave considerable flexibility to national governments in their choice among adjustment instruments. In a diverse world, equal responsibility and equal opportunity need not mean rigid uniformity in particular practices. But they do mean a common commitment to agreed international objectives. The belief is widespread—and we share it—that the exchange rate system must be more flexible. However, important as they are, exchange rates are not the only instrument of adjustment policy available; nor, in specific instances, will they necessarily be the most desirable.

Fifth, our monetary and trading systems are an interrelated complex. As we seek to reform monetary rules, we must at the same time seek to build in incentives for trade liberalization. Certainly, as we look ahead, ways must be found to integrate better the work of the GATT and the IMF. Simultaneously we should insure that there are pressures which move use toward adequate development assistance and away from controls which stifle the free flow of investment.

Finally, and perhaps most fundamental, any stable and well functioning international monetary system must rest upon sound policies to promote domestic growth and price stability in the major countries. These are imperative national goals for my government—and for yours. And no matter how well we design an international system, its prospects for survival will be doubtful without effective discharge of those responsibilities.

Today is not the occasion for presenting a detailed blueprint for monetary reform. However, I do want to supplement these general principles with certain specific and interrelated ideas as to how to embody these principles in a workable international agreement.

These suggestions are designed to provide stability without rigidity. They take as a point of departure that most countries will want to operate within the framework of specified exchange rates. They would encourage these rates to be maintained within specified ranges so long as this is accomplished without distorting the fabric of trade and payments or domestic economic management. We aim to encourage freer flows of trade and capital while minimizing distortions from destabilizing flows of mobile capital. We would strengthen the voice of the international community operating through the IMF.

I shall organize these ideas under six headings, recognizing that much work remains to be done to determine the best techniques in each area:

The Exchange Rate Regime
The Reserve Mechanism
The Balance of Payments Adjustment Process
Capital and Other Balance of Payments Controls
Related Negotiations
Institutional Implications

1. The Exchange Rate Regime

We recognize that most countries want to maintain a fixed point of reference for their currencies —in other words, a "central" or "par" value. The corollary is a willingness to maintain and support these values by assuring convertibility of their currencies into other international assets.

A margin for fluctuation for market exchange rates around such central values will need to be provided sufficiently wide to dampen incentives for short-term capital movements and, when changes in central values are desirable, to ease the transition. The Smithsonian Agreement took a major step in that direction. Building on that approach in the context of a symmetrical system, the permissible outer limits of these margins of fluctuation for all currencies—including the dollar—might be set in the same range as now permitted for non-dollar currencies trading against each other.

We also visualize, for example, that countries in the process of forming a monetary union—with the higher degree of political and economic integration that that implies—may want to maintain narrower bands among themselves, and should be allowed to do so. In addition, an individual nation, particularly in the developing world, may wish to seek the agreement of a principal trading partner to maintain a narrower range of exchange rate fluctuation between them.

Provision needs also to be made for countries which decide to float their currencies. However, a country that refrains from setting a central value, particularly beyond a brief transitional period, should be required to observe more stringent standards of behavior in other respects to assure the consistency of its actions with the basic requirements of a cooperative order.

2. The Reserve Mechanism

We contemplate that the SDR would increase in importance and become the formal numeraire of the system. To facilitate its role, that instrument should be freed of those encumbrances of reconstitution obligations, designation procedures, and holding limits which would be unnecessary in a reformed system. Changes in the amount of SDR in the system as a whole will be required periodically to meet the aggregate need for reserves.

A "central value system" implies some fluctuation in official reserve holdings of individual countries to meet temporary disturbances in their balance of payments positions. In addition, countries should ordinarily remain free to borrow or lend, bilaterally or multilaterally, through the IMF or otherwise.

At the same time, official foreign currency holdings need be neither generally banned nor encouraged. Some countries may find holdings of foreign currencies provide a useful margin of flexibility in reserve management, and fluctuations in such holdings can provide some elasticity for the system as a whole in meeting sudden flows of volatile capital. However, careful study should be given to proposals for exchanging part of existing reserve currency holdings into a special issue of SDR, at the option of the holder.

The suggested provisions for central values and convertibility do not imply restoration of a gold-based system. The rigidities of such a system, subject to the uncertainties of gold production, speculation, and demand for industrial uses, cannot meet the needs of today.

I do not expect governmental holdings of gold to disappear overnight. I do believe orderly procedures are available to facilitate a diminishing role of gold in international monetary affairs in the future.

3. The Balance of Payments Adjustment Process

In a system of convertibility and central values, an effective balance of payments adjustment process is inextricably linked to appropriate criteria for changes in central values and the appropriate level, trend, and distribution of reserves. Agreement on these matters, and on other elements of an effective and timely adjustment process, is essential to make a system both practical and durable.

There is, of course, usually a very close relationship between imbalances in payments and fluctuations in reserve positions. Countries experiencing large deterioration in their reserve positions generally have had to devalue their currencies or take other measures to strengthen their balance of payments. Surplus countries with disproportionate reserve gains have, however, been under much less pressure to revalue their currencies upward or to take other policy actions with a similar balance of payments effect. If the adjustment process is to be more effective and efficient in a reformed system, this asymmetry will need to be corrected.

I believe the most promising approach would be to insure that a surfeit of reserves indicates, and produces pressure for, adjustment on the surplus side as losses of reserves already do for the deficit side. Supplementary guides and several technical approaches may be feasible and should be examined. Important transitional difficulties will need to be overcome. But, in essence, I believe disproportionate gains or losses in reserves may be the most equitable and effective single indicator we have to guide the adjustment process.

As I have already indicated, a variety of policy responses to affect the balance of payments can be contemplated. An individual country finding its reserves falling disproportionately would be expected to initiate corrective actions. For example, small devaluations would be freely permitted such a country. Under appropriate international surveillance, at some point a country would have a prima facie case for a larger devaluation.

While we must frankly face up to limitation on the use of domestic monetary, fiscal, or other internal policies in promoting international adjustments in some circumstances, we should also recognize that the country in deficit might well prefer—and be in a position to apply—stricter internal financial disciplines rather than devalue its currency. Only in exceptional circumstances and for a limited period, should a country be permitted direct restraints and these should be general and nondiscriminatory. Persistent refusal to take fundamental adjustment measures could result in withdrawal or borrowing, SDR allocation, or other privileges.

Conversely, a country permitting its reserves to rise disproportionately could lose its right to demand conversion, unless it undertook at least limited revaluation or other acceptable measures of adjustment. If reserves nonetheless continued to rise and were maintained at those higher levels over an extended period, then more forceful adjustment measures would be indicated.

For a surplus as for a deficit country, a change in the exchange rate need not be the only measure contemplated. Increasing the provision of concessionary aid on an untied basis, reduction of tariffs and other trade barriers, and elimination of obstacles to outward investment could, in specific circumstances at the option of the nation concerned, provided supplementary or alternative means. But, in the absence of a truly effective combination of corrective measures, other countries should ultimately be free to protect their interests by a surcharge on the imports from the chronic surplus country.

For countries moving toward a monetary union, the guidelines might be applied on a collective basis, provided the countries were willing to speak with one voice and to be treated as a unit for purposes of applying the basic rules of the international monetary and trading system.

4. Capital and Other Balance of Payments Controls

It is implicit in what I have said that I believe that the adjustment process should be directed toward encouraging freer trade and open capital markets. If trade controls are permitted temporarily in extreme cases on balance of payments grounds, they should be in the form of surcharges or across-the-board taxes. Controls on capital flows should not be allowed to become a means of maintaining a chronically undervalued currency. No country should be forced to use controls in lieu of other, more basic, adjustment measures.

5. Related Negotiations

We welcome the commitments which major nations have already made to start detailed trade negotiations under the GATT in the coming year. These negotiations, dealing with specific products and specific restraints need not wait on monetary reform, nor need monetary reform await the results of specific trade negotiations.

Those negotiations, and the development of rules of good behavior in the strictly monetary area, need to be supplemented by negotiations to achieve greater equity and uniformity with respect to the use of subsidies, and fiscal or administrative pressures on trade and investment transactions. Improper practices in these areas distort trade and investment relationships as surely as do trade barriers and currency disequilibrium. In some instances, such as the use of tariff surcharges or capital controls for balance of payments purposes, the linkage is so close that the Committee of Twenty must deal with the matter directly. As a supplement to its work, that group can help launch serious efforts in other bodies to harmonize countries' practices with respect to the taxation of international trade and investment, the granting of export credit, and the subsidization of international investment flows.

6. Institutional Implications

As I look to the future, it seems to me that there are several clear-cut institutional requirements of a sensible reform of the monetary and trading system.

Several times today, I have stressed the need for a comprehensive new set of monetary rules. Those rules will need to be placed under guardianship of the IMF, which must be prepared to assume an even more critical role in the world economy.

Given the interrelationships between trade and payments, that role will not be effectively discharged without harmonizing the rules of the IMF and the GATT and achieving a close working relationship.

Finally, we need to recognize that we are inevitably dealing with matters of essential and sensitive national interest to specific countries. International decision-making will not be credible or effective unless it is carried out by representatives who clearly carry a high stature and influence in the councils of their own governments. Our international institutions will need to reflect that reality, so that in the years ahead national governments will be intensively and continuously involved in their deliberations and processes. Without a commitment by national governments to make a new system work in this way, all our other labors may come to naught.

I am fully aware that the United States as well as other countries cannot leap into new monetary and trading arrangements without a transitional period. I can state, however, that after such transitional period the United States would be prepared to undertake an obligation to convert official foreign dollar holdings into other reserve assets as a part of a satisfactory system such as I have suggested—a system assuring effective and equitable operation of the adjustment process. That decision will, of course, need to rest on our reaching a demonstrated capacity during the transitional period to meet the obligation in terms of our reserve and balance of payments position.

We fully recognize that we have not yet reached the strength we need in our external accounts. In the end, there can be no substitute for such strength in providing the underpinning for a stable dollar and a stable monetary system.

An acceptable monetary system requires a willingness on the part of all of us to contribute to the common goal of full international equilibrium. Lacking such equilibrium no system will work. The equilibrium cannot be achieved by any one country acting alone.

We engage in discussions on trade and financial matters with a full realization of the necessity to continue our own efforts on a broad front to restore our balance of payments. I must add, in all candor, that our efforts to improve our position have, in more than one instance, been thwarted by the reluctance of others to give up an unjustified preferential and highly protected market position. Yet, without success in our endeavor, we cannot maintain our desired share in the provision of aid, and reduce our official debt to foreign monetary authorities.

We take considerable pride in our progress toward price stability, improved productivity and more rapid growth during the past year. Sustained into the future, as it must be, that record will be the best possible medicine not only for our domestic prosperity but for the effective functioning of the international financial system.

My remarks today reflect the large agenda before us. I have raised difficult, complicated, and controversial issues. I did not shrink from so doing for a simple reason: I know that you, as we, want to move ahead on the great task before us.

Let us see if, in Nairobi next year, we can say that a new balance is in prospect and that the main outlines of a new system are agreed. We owe ourselves and each other that effort.

GPO 940-046

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

NOTE TO CORRESPONDENTS:

Attached is a paper entitled "The U.S. Proposals for Using Reserves as an Indicator of the Need for Balance-of-Payments Adjustment." The paper was circulated by the United States at a meeting of the Deputies of the Committee on Reform of the International Monetary System and Related Issues ("Committee of Twenty") at the headquarters of the International Monetary Fund, Washington, D.C., November 27, 1972.

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The U.S. Proposals for Using Reserves as an Indicator of the Need for Balance-of-Payments Adjustment

I. Introduction

1. There appears to be general agreement that a reformed international monetary system should promote prompter and more effective adjustment of balance-of-payments disequilibria. The U.S. proposals are based on the premise that each country will be willing to work within the context of a system that provides strong, equitable and balanced incentives to achieve and maintain external balance.

2. In the U.S. view, the most promising approach is a system in which disproportionate changes in a nation's reserves in either direction serve as objective indicators that balance-of-payments adjustment measures are needed. We visualize a system in which disproportionately large gains in reserves for a particular country indicate the need for adjustment measures to eliminate a balance-of-payments surplus, just as, in any system of convertibility into reserve assets, disproportionately large losses of reserves indicate the need for adjustment to eliminate a balance-of-payments deficit. A variety of adjustment instruments would be acceptable. The purpose of this paper is to develop the logic of this approach.

3. The international monetary system in past years has failed to provide adequate inducements to achieve and maintain balance-of-payments equilibrium, defined as a situation in which external payments are in reasonable balance at normal levels of employment and economic activity, and without inappropriate utilization of controls. This failure was reflected in both large and persistent imbalances, and in recent years in some tendency toward increased use of controls. Deficit countries could often maintain disequilibria for a considerable period through measures distorting trade, capital flows, or the internal economy; they were usually permitted or even encouraged to borrow extensively. (In the case of the United States, this "borrowing" in large part took the form of increased holdings by foreign monetary authorities of U.S. dollar obligations.) Surplus countries, able to accumulate

reserves more or less indefinitely, felt under even less pressure to adjust, and an increasingly common response has been controls on the inward flow of capital.

4. Viewed from the perspective of a single country--particularly a country in a relatively advanced stage of development--balance-of-payments surpluses have been considered a more comfortable and more desirable state of affairs than deficit or balance. A surplus country could avoid the politically embarrassing adjustment actions which a deficit country might be forced to take. A strong trading position was frequently considered a vehicle for domestic economic expansion and maintenance of full employment. A persistently strong currency and large reserves might be felt to provide useful protection against unexpected external influences, and even to symbolize prudent economic management. Prior to the introduction of the SDR scheme, the system depended on balance-of-payments disequilibrium for growth in reserves--growth in global reserves over time could be accomplished only as other countries ran surpluses offset by U.S. deficits, financed through an expansion of U.S. liabilities.

5. Some of these incentives to run surpluses were recognized in the discussion leading up to Bretton Woods, and they were reflected in the strictures placed on competitive devaluation. Nevertheless, while overt competitive devaluations have not been important, many countries still more or less consciously have aimed for payments surpluses and adapted their economic policy instruments to that end. At the very least, surpluses were tolerated while deficits were a source of concern and action. There was nothing in the system to assure compatibility of nations' balance-of-payments objectives--nothing to assure that the surpluses which many countries sought would be offset by targeted deficits in equal amounts on the part of other countries.

6. Within this general context, there were systematic tendencies for surpluses and deficits to fall in a particular pattern. From the viewpoint of the United States, as the largest unit in the world economic system and in important

ways in the least flexible position, these pressures toward surplus and currency undervaluation by others have had their counterpart in a persistent deficit in its own accounts. It was long felt inappropriate, in the light of the disturbing implications for stability in world financial markets, for the United States to initiate exchange rate action to correct this deficit. When the imbalance increased substantially and such action was undertaken, the resistance by its trading partners seemed to confirm their reluctance to lose a surplus position, as well as to demonstrate the difficulty of achieving the needed adjustment in the absence of agreed criteria for reconciling balance-of-payments objectives. From the viewpoint of some other countries, the mechanism that permitted the chronic U.S. deficit and their surpluses to persist--namely, the tendency for that imbalance to be financed, in part, by increased dollar holdings of other countries--indicated that the United States was not subject to the usual constraints of a deficit country. In concept, the introduction of the SDR successfully freed the system of the need for continuous U.S. deficits to meet reserve needs. But by itself that reform was not sufficient to change the basic bias in the system.

7. While the system operated satisfactorily for a number of years--in fact it may have been preferable to any realistic alternative--it was a system of continuous imbalance, of protracted disequilibrium. From the viewpoint of both the U.S. and other nations, the results were increasingly unsatisfactory, creating major stresses that undermined stability. The system failed, in the end, because it depended on a measure of broad equilibrium for sustained, satisfactory operation, yet failed to induce the adjustments required to achieve equilibrium. The actions taken by the United States on August 15, 1971, signaled the untenability of the previously existing arrangements. The interim arrangements developed since that time, including the Smithsonian

Agreement of December 1971, do not provide a long-term solution to these problems.

8. The U.S. proposals for a future system are designed to encourage equilibrium by promoting needed adjustments actively, rather than simply prohibiting unwarranted moves; and to apply equivalent incentives for adjustment even-handedly to all nations. The proposals are evolutionary, in the sense that they would build on certain areas of widespread agreement incorporated in past arrangements: the SDR, convertibility, the prohibition on competitive devaluation, and emphasis on the need for international financial arrangements to support liberal trade and payments. They would differ from the past in building these and other elements of the system into arrangements for actively promoting adjustment, reconciling balance-of-payments objectives, and overcoming the systematic bias toward surpluses.

II. The Need for Objective Criteria

9. The U. S. proposals take as a point of departure that the stability and durability of a new monetary system will be crucially dependent on finding an equitable and effective means of promoting the adjustment of external imbalances.

10. In approaching that objective, we believe success is dependent upon finding an appropriate blend among three possible approaches, each of which contains some advantages, but none of which is satisfactory by itself. The three approaches are:

a) national discretion--a degree of which is essential in a world of sovereign nations and desirable in allowing maximum practicable freedom of action among individual countries, but which, relied on alone, assures neither equilibrium nor an equitable sharing of adjustment responsibilities;

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b) discretionary authority of a central institution--which can bring to bear the influence and collective wisdom of the entire world community on particular adjustment problems, but which can lead to endless debate, indecision or unbalanced decisions in a potentially politically charged atmosphere, and which requires at least the appearance of ceding more authority to an international body than nations will yield at this stage of international development; and

c) objective criteria--which can be helpful in establishing measurements for indicating adjustment needs for various nations and various situations on a standardized basis, but which do not unerringly point to appropriate adjustments or permit needed discretion by national authorities.

11. The U.S proposal aims at a balance among these approaches--to utilize the advantages of each, while avoiding the disadvantages which might result from excessive or single-minded reliance on any of the three. We propose that objective criteria be established to note and locate the existence of an undesirable degree of balance of payments disequilibrium, and to create a strong presumption that effective adjustment policies should be implemented. But we would leave to the country concerned substantial discretion in determining the composition of those adjustment policies. And international consultation would be utilized to determine the applicability of the criteria to particular situations and to consider exceptional cases in which the rules might be overriden.

12. Use of objective indicators as an important element of the adjustment mechanism appears essential on grounds of efficacy and equity. Adjustment decisions are frequently difficult for any government, and there is a tendency to postpone and avoid such decisions until long after the time when adjustment policies should have been adopted. Equally,

international groups are reluctant to deal promptly with difficult and politically sensitive adjustment questions. Without objective indicators there is a danger that needed actions will not be taken. It is much better to get advance agreement in principle that when certain internationally agreed indicators, recognized as being objective, signal adjustment is needed, there will be a strong presumption that appropriate measures will be adopted--but recognizing there might be valid reasons for overriding the indicators in exceptional cases. Such an approach is much more likely to result in equal treatment for all nations: it would call for comparable adjustment inducements for all countries--whether large or small, developed or developing, reserve currency country or not--to eliminate payments disequilibria, whether surplus or deficit.

III. Adjustment, Reserves, and Convertibility

13. The U.S. proposals assume that most nations will want to maintain established values for their exchange rates--par values or central rates--in conjunction with a generalized system of convertibility of national currencies into international reserve assets. In a system of established exchange values and convertibility, there is a close relationship between balance-of-payments disequilibria and reserve changes. Accordingly, in our view the single most valid indicator that a country is in actual or emerging disequilibrium--as well as the most readily available, the most comprehensive, and the least ambiguous--is a persistent movement of its reserves in one direction or another.

14. To be viable, a convertibility system must be capable of satisfying the sum of individual countries' normal needs for and secular growth in reserves. Nations individually, either explicitly through formulation of overt balance-of-payments objectives, or more implicitly through their behavior, express an effective demand for reserves. Unless the international monetary system is capable of meeting these national demands in the aggregate and changing the level of reserves to meet changes in such needs over time, a satisfactory

reconciliation of national balance of payments aims, and therefore sustained balance-of-payments equilibrium, cannot be assured. For if reserves are not adequate to these demands in the aggregate, nations are incapable by definition of reaching their desired reserve positions simultaneously. A decision to provide the system with too few reserves induces--and sanctions--a destabilizing and ultimately fruitless competition for scarce reserves. Creation of too many reserves pushes too great a share of the adjustment pressures onto surplus countries and facilitates world inflation.

15. A critical defect of the system in the past was that while it tried to promise unlimited convertibility, and while fundamentally it required a broad measure of balance-of-payments equilibrium for sustained operation, it did not provide the supply of acceptable reserve assets or the discipline on adjustment policies necessary to achieve these objectives. A basic feature of the U.S. proposal is that nations must, through the process of negotiation, reach a collective decision on the appropriate normal stock and rate of increase of reserves, and be prepared to accept the consequences of that decision in terms of their own individual reserve positions and their own freedom of action to run surpluses or deficits.

16. It would be essential in the proposed system that countries regard their balance of payments disequilibria, whether surplus or deficit, as a source of concern before the agreed indicators came into play. In other words, countries would not be expected to ignore imbalances blithely until their disequilibria had become so extreme as to prompt strong <u>international</u> concern through the indicator mechanism. Reserve fluctuations would signal emerging disequilibria; movement to outer indicators signalling strong international concern would occur only when countries failed to make the appropriate responses as the disequilibria built up.

17. Convertibility itself cannot promote adequate or equitable adjustment. Convertibility is in that sense an asymmetrical tool, operating only on deficit countries. In the framework of the U.S. proposal, the inherent link of convertibility to reserve fluctuations would result in broadly symmetrical pressures upon surplus and deficit nations.

18. In short, the logic of the U.S. proposals is that a) better balance of payments adjustment is required and is essential to the maintenance of a convertibility system: b) such an adjustment process, in turn, requires recognition by both surplus and deficit countries of their obligations and responsibilities to take action: c) in that context, objective indicators of the need for adjustment are essential: d) a broad equality between the availability of, and demands for, reserves in the system must be satisfied; and e) all of these needs can be brought together, in the context of a system of established exchange rates supported by convertibility, by the use of reserve movements as the main indicator of the need for adjustment.

IV. Description of the Proposed Adjustment/Reserve/ Convertibility System

19. These principles could be incorporated into several alternative operational frameworks. Such alternative formulations could, for example, (a) emphasize the use of net or gross reserves as the basis for measuring fluctuations in reserves: (b) focus attention largely on changes in reserves from an existing starting level or on an appropriate distribution of individual countries' reserves in relation to some "objective" standard: and (c) provide for either relatively narrow or relatively wide ranges of fluctuation in reserves before international disciplines come into play. While the underlying principles and logic of the various approaches would be broadly similar, the particular formulation chosen would determine the speed, force and manner with which the adjustment pressures would operate. For its part the United States wishes to continue to examine the advantages and disadvantages of the alternatives with care, and would welcome the contribution toward this effort that others can make.

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20. The use of fluctuations in countries' reserves as the main indicator of adjustment need requires a judgment about a "base" level and trend of reserves for each country. Abstracting from transitional problems (noted later), these "base levels" could be established in several different ways. For instance, the distributional pattern of national quotas in the IMF (allowing for any agreed revisions in the future) might represent one approach toward determining a broadly acceptable distribution of reserves in normal circumstances. Another approach would be to give heavy weight to the actual level of reserves at the start of the system for the majority of countries, relying on separate negotiations for those countries whose reserves at the start of the system were judged to be seriously excessive or inadequate. Countries' "base levels," in any case, would be expected to rise over time, consistent with collective decisions about world SDR creation. The manner in which "base levels" should be calculated would clearly be a matter for careful negotiation. What is necessary is that <u>some</u> pattern be accepted that is generally satisfactory.

21. Use of reserve fluctuations to achieve an even-handed stimulus to adjustment will require a broad consistency between the total of established "base levels" for individual countries and the actual supply of reserves in the system as a whole. Conceptually, in a system which did not provide for reserve currencies, this need could be met simply by assuring that the aggregate of gold, SDR's and IMF positions -- that is, "primary reserves" -- equaled the aggregate of countries' "base levels" of reserves. If in such a system aggregate "base levels" were above total primary reserves, a destabilizing and potentially deflationary competition for reserves could result; if "base levels" were below the total of primary assets, too large a share of adjustment pressures would be shifted toward surplus countries and world inflation might be facilitated.

22. In practice, we assume that some nations will wish to hold foreign exchange in their reserves and should be permitted to do so. Some nations will want flexibility of reserve management, and the system as a whole will benefit from an ability to respond flexibly to sudden and reversible

increases in the need for liquidity during periods of strain related to speculative or other factors. Thus, in structuring the proposed system consideration will need to be given to the complication introduced by the existence of a possibly fluctuating margin of foreign exchange holdings. In a convertibility system, foreign exchange holdings are potential claims on primary reserves. Consequently, a stable system must provide enough primary reserves in relation to the whole to meet reasonable demands for conversion of these potential convertibility claims and/or must limit demands for conversion by individual countries that would otherwise claim an excessive proportion of the available supply of primary reserves.

23. There are a number of complementary approaches which could reconcile the existence of foreign exchange holdings in reserves with the stability and even-handed working of a system of reserve indicators. One approach would be to equate the aggregate of "base levels" with the total of primary reserves and provide limits on the disproportionate accumulation of primary reserves by a country above its base level. Some assurance against excessive claims for primary reserves growing out of past accumulation of foreign exchange could also be provided by arrangements providing for bilateral or multilateral funding of existing foreign exchange reserves to the extent the holder wished to fund such balances, or by a facility for exchange of such balances -- initially or over time -- into SDR's. These aspects of the question should receive careful study, but are not further considered here.

24. Under a reserve-indicator system, certain points would be established above and below each country's base level to guide the adjustment process and to assure even-handed convertibility disciplines. Such points would be set according to uniform procedures for each country, and could be described as follows, again abstracting from

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special arrangements that would be appropriate during a transitional period.

a) A "low point" would be set at some point below the "base level." In concept, this might approximate a level of reserves considered to be close to the minimum level ordinarily necessary to maintain confidence and to guard against extreme emergencies. If a country's reserves fell below its "low point" for a period of time, definite adjustment pressures would be anticipated and acceptable adjustment measures would be expected. In the absence of adequate policies over a specified period, international sanctions -- for example, refusal to provide credit, or loss of scheduled SDR allocations -- might become effective. Such sanctions would be avoided only if the IMF, through approval of a satisfactory program of adjustment, made a finding that sanctions were not warranted. Negotiated credits to deficit countries would ordinarily be permitted -- but excessive or prolonged borrowing to circumvent the indicators would not be allowed.

b) A "lower warning point" would be set at a point between a country's "base level" and the "low point." Small devaluations would be freely permitted a country at any time its reserves were below its base level. Proposals for larger devaluations would always require IMF approval; such proposals would not ordinarily be looked upon with favor unless a country's reserves had fallen below its "lower warning point."

c) An "outer point" would be established above a country's "base level." As a country moved toward its "outer point," it would be expected to apply adjustment measures of progressive intensity. If reserves rose to the "outer point," remained at or above that level for a specified period, and an adequate program of adjustment were not in place, international action to induce adjustment would take effect. For example, the IMF might authorize other countries to impose general import taxes or surcharges against the country concerned, there might be a loss of scheduled SDR allocations, or there might be a tax on the country's excess reserve holdings with proceeds to go to development assistance. Such sanctions could be avoided, or postponed, only if the IMF made a positive finding they were not warranted, on the basis of an agreed program of adjustment -- involving, for example, major moves toward liberalization of import restrictions, removal of any controls on the outward flow of capital, provision of concessional untied aid, or revaluation. Standards should be developed for judging the adequacy of such programs and their consistency with progress toward a liberal world economic order. If reserve gains persisted despite the agreed program, authorization for sanctions would, after a further period, take effect. In any event, the IMF would review the country's position periodically, and make such recommendations and authorizations as it deemed appropriate.

d) An "upper warning point" would be set between the "base level" and the "outer point," analagous to the lower warning point, representing an international judgment that adjustment is called for. The IMF would be expected to report on the country's balance of payments position and prospects, and revaluation or other adjustment measures would be anticipated.

e) Depending on the volume of total reserves relative to primary reserves in the system, this "upper warning point" might coincide with a "convertibility point" representing the maximum accumulation of primary reserves for each country that would be justified, consistent with the level of aggregate primary reserves in the entire system, for the convertibility mechanism to operate equitably with respect to both deficit and surplus countries. Both to provide an incentive for adjustment, and to prevent countries from placing further convertibility pressures on others, a country reaching such a "convertibility point" would be unable to acquire additional primary reserves, through either purchase or SDR allocation.

25. A reserve-indicator system such as the one sketched above should be supplemented and elaborated by consultative procedures within the IMF concerning adjustment programs and problems. For such procedures to be effective, national policy officials at a politically responsive level should be drawn into the process. Such IMF review could take into account supplementary criteria in considering the nature and magnitude of any need for adjustment.

26. Countries would not be expected to delay adjustment action until they had reached the indicator points. The purpose of a reserve-indicator system is to provide strong incentives for countries to act in limited steps, using a variety of tools suited to their circumstances before their situation becomes so urgent as to involve international concern and action. Moreover, while countries would at given points be brought under overt international pressure for adjustment, they would still have a range of policy options at their disposal. The range of "acceptable adjustment measures" for the system would, however, be limited to those consistent with market mechanisms and a liberal world trade and payments order. Exchange rate changes are not seen as the only, or necessarily the most desirable, means of adjustment in all cases.

27. Even though the aim of the system is to promote equilibrium, some scope for fluctuation in reserves is obviously necessary and desirable. No workable system can or should try to assure lock-step economic performance from 124 nations differing greatly in size, stage of development, and economic circumstance. Through the process of negotiation, an international consensus should be reached in defining the indicator points so as to get "enough" elbow room for some fluctuation in reserves to meet transitory payments imbalances, but not "so much" that adjustment is inappropriately delayed.

28. The reserve-indicator system should be designed to permit countries maximum flexibility to the extent compatible with maintaining the system's basic principles:

a) As noted, a <u>small</u> devaluation without requirement for approval might be permitted at any time a country's reserves were below base level. Small revaluations might be permitted at any time. While in practice, situations would seldom, if ever, arise for withholding international approval from larger revaluations, restraint will continue to be necessary to guard against competitive devaluation.

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b) A country could opt for a transitional float, under agreed rules, in lieu of a discrete exchange rate change. If it intended to reestablish and maintain a central value for its currency within a given period, a reserve-deficient country could be permitted, under suitable guidelines, to increase its reserves toward its base level. If a country's reserves were above its base level at the time of initiation of the transitional float, it would not be permitted further reserve accumulation.

c) A country could depart from the regime of established parities to float for a period of indefinite duration but only if it adhered to internationally agreed standards that would assure the consistency of its actions with the basic requirements of a cooperative order. These standards would relate, for example, to movements in its reserves, its intervention policies, elimination of controls on the inward flow of capital, avoidance of restrictive trade controls imposed for balance-of-payments purposes and elimination of any existing extraordinary balance-of-payments measures. Exchange rate systems nominally establishing a central or par value but envisaging very frequent changes such as those now in force in some less developed countries, could be integrated with this rule.

d) Any group of countries in the process of forming a monetary union -- with an implicit high degree of political and economic integration -- could choose to operate as a unit. In this instance, the relevant criteria would be applied to the unit as a whole, which would be expected to speak with one voice in international forums. The reserve norms for the unit would have to be recalculated to reflect external trade and appropriate treatment of intra-unit assets.

e) On a selective basis, consideration should be given to special arrangements for exclusion from reserves, and thus from measurements of adjustment need, of an "investment fund" of foreign securities or other foreign assets held by official agencies. Such funds might be appropriate for selected countries that wanted to hold over a prolonged period of time within official accounts (or with official inducements), foreign assets for long-term investment purposes. Such countries could be asked to observe certain criteria with respect to term, size and nature of the holdings. Oil producing countries with relatively large external assets would be candidates for such arrangements.

f) Negotiated official credits (including IMF credits) should be permitted. Satisfactory procedures for the recording of such credits under the reserve-indicator system would need to be devised.

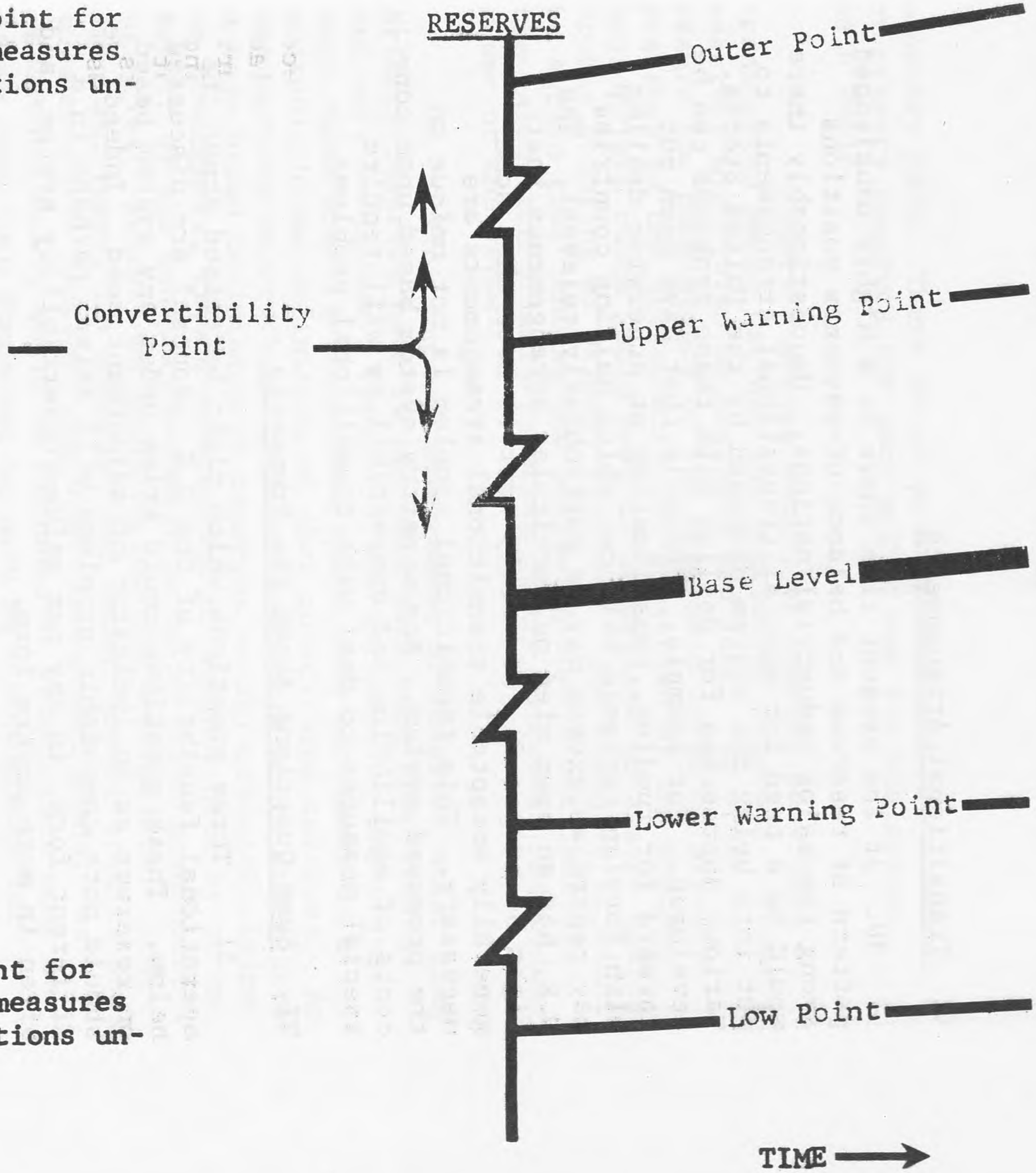
g) In general, the system should neither ban nor encourage official holdings of foreign exchange. However, in the context of the proposed system, such holdings would presumably not loom so large relatively as in recent years. Each country should have the right to place limits on the further accumulation of its own currency of issue by official institutions in any other individual country or group of countries. Each country that chose to permit foreign official holdings of its currency must provide reasonable and normal investment facilities for those holdings.

29. The United States proposal neither gives special rights to nor imposes special obligations on any country or group of countries. It assumes a monetary system in which all countries are treated equally. All would have the same freedom to use the full exchange rate margins permitted in the system. All would have the same rights to allow their currencies to float, transitionally or indefinitely, under the same internationally agreed rules of behavior and surveillance. All maintaining established values for their currencies would have the same obligation to assure convertibility of their currencies -- meaning that officially held balances of foreign currencies could be freely presented to the issuing country for conversion into primary reserve assets, with the choice among SDR's, reserve positions in the IMF and gold to be made by the issuing country.

ILLUSTRATION FOR INDIVIDUAL COUNTRY OF RESERVE INDICATOR SYSTEM

If reserves remain at outer point for specified period, adjustment measures required. International sanctions unless IMF overrides.

Location of convertibility point related to volume of primary reserves relative to base levels, for system as a whole. If a country reaches the convertibility point, further acquisition of primary reserves prohibited.



If reserves remain at low point for specified period, adjustment measures required. International sanctions unless IMF overrides.

V. Transitional Arrangements

30. At the present time there is a highly unbalanced pattern of reserves and balance-of-payments positions among the major industrial nations. Unquestionably there would be a need for special transitional arrangements to put into being the system proposed by the United States. Various approaches for dealing with these problems can be developed. For example, proposals that have been put forward for funding, consolidating or otherwise dealing with foreign exchange balances which holding countries may regard as excess may be particularly relevant. The U.S. has an open mind on particular arrangements that might be proposed. We merely want to note that some generally acceptable transitional arrangements are necessary. This transitional problem is not unique to the proposed system. Any monetary system based upon concepts of equilibrium and convertibility will require special measures to deal with transitional problems.

VI. Some Questions About the Proposals

31. Three questions which might be raised about the operational feasibility of the U.S. proposal are discussed below. These questions could arise under any system based on reserves as an indicator of adjustment need. Indeed, we should note comparable problems will arise, perhaps in a different form, in any par value-convertibility system, and often in more severe form.

32. The first question is: Is it possible to define reserves so as to assure they are useful and accurate criteria?

33. Based on reserves as the key indicator of disequilibrium and the need for adjustment, the system proposed by the U.S. depends on clear and reliable definitions of what constitutes both primary and total reserves, to assure that they give the appropriate signals in a given situation and to assure that the rules cannot be easily circumvented by artificial reserve transactions or concealment of reserves.

34. Primary reserves are more easily defined. They would consist of SDR's, reserve positions in the IMF, and

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monetary gold. There would be a precise and known amount of primary reserves for each nation and for the system as a whole.

35. Primary reserves would, of course, be widely transferred among nations for settlement purposes. Primary reserves might also be borrowed and lent. In order to assure the consistency of the aggregate level of primary reserves in the system with the operation of the system, appropriate rules would need to be devised to assure against double counting of primary reserves. For example, it might be agreed that lending and borrowing should not increase the calculated primary reserves of the borrower, nor reduce those of the lender.

36. Definition and **measurement of reserves other than** primary reserves have in the past been more complicated and more ambiguous. Possibilities for evading the adjustment rules might arise unless there were agreement on a suitably broad definition of what constitutes reserves. An appropriate approach to this problem would be to start from a very broad definition of reserves -- all official claims on foreigners, liquid or non-liquid, whether held by or on behalf of the monetary authorities or by other government agencies. Exceptions would be made as appropriate. Long-term aid loans, for example, and normal export credits would presumably be omitted; approved "investment funds," as described above, would be excluded -- though care must be taken that such funds not be used as a subterfuge for reserve increases. At any rate, with experience in operating the system, technical discussions would probably help to refine the definitions, so as to reduce the risks of window-dressing and make the system function as effectively as possible.

37. The second question is: How do we deal with problems of heavy speculative capital flows?

38. Speculative problems will be a factor in any system -- indeed, they proved to be a critically important factor in the Bretton Woods system. The system proposed by the U.S. actually contains a number of features which should

reduce the problem of speculation, as compared both with the past and with other approaches to reform of which we are aware.

39. The proposal aims at a system which fosters balance, and prompt adjustments to restore equilibrium, through a variety of adjustment measures. Thus, the persistent payments imbalances which in the past were a major factor in generating massive speculative capital movements would be eliminated or sharply diminished.

40. With the system based broadly on the concept of equilibrium, it cannot be overemphasized that national behavior which is truly in the spirit of this concept must help to assure that crisis points are not reached. The existence of the various indicator points on reserve movements does provide limits on disequilibria, and it is possible that movement close to those limits could stimulate some speculative activity, just as very large reserve gains or losses trigger speculative activity in the present system. But for fully satisfactory operation of the system, countries should endeavor to adjust their positions as the disequilibria emerge, and well before they reach the extremes, both because of the consequences involved in reaching the limits, and because they have accepted external balance as a practical, operative balance-of-payments objective. If a country persists in avoiding adjustment, it will eventually -- and appropriately -- be subject to the disciplines of the system, including speculative pressures. Much as in the past system, adjustment of some kind becomes unavoidable when disequilibria become extreme. What is missing in the past and present systems, and what the proposed system attempts to provide, is a real incentive for needed adjustment to occur before it is forced by crisis.

41. Also, the proposal has to be looked at in the context of a system of adequately wide exchange rate bands, which would be expected to reduce the prospect for large capital flows significantly.

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42. Nonetheless, even with an improved adjustment system there could still be some question of whether false signals could result from speculative capital flows. The answer is that the proposed system contains several important "safety valves." First, there are areas, or zones, within which reserves can move in response to speculative or other pressures without bringing overt international requirements for adjustment measures. Second, there is a time factor envisaged at both the "low point" and the "outer point" which would provide scope for speculative or other flows to occur and reverse themselves, without bringing strong international action to induce adjustment. (This factor could also play an important role in inhibiting speculative movements themselves.) Third, if a nation were pushed across its "outer point" by, say, a heavy inflow of speculative capital, and remained above that point, it need not necessarily appreciate its exchange rate -- the requirement is for any "acceptable" adjustment program. Fourth, if the reserve increment were due to capital inflows based on unfounded speculation on an exchange rate change -- and the IMF agreed that basic adjustment was not needed -- a program dealing exclusively with that problem in an internationally acceptable manner would presumably satisfy the international community. The international community could vote to override the reserve indicators in a case where the signals are judged to be obviously wrong.

43. In discussing these "safety valves," however, it should be remembered that signals are not necessarily "wrong" simply because speculative capital flows arise -- such flows may indicate a genuine need for adjustment measures. The system cannot enable nations to avoid <u>needed</u> adjustments simply by blaming their problems on speculation.

44. The third question is: Aren't reserve indicators <u>retrospective</u> and insufficiently refined, pointing to past <u>maladjustments</u> rather than present or future needs and unable to take account of the composition of the balance of payments?

45. Reserves are more comprehensive, more reliable and more quickly available indicators than other criteria of external balance. While reserves may be distorted in the short run, no other single series provides a superior basis

for analysis. In a convertibility system, reserve data are necessarily indicative of disequilibrium in the adjustment process: this has always been understood in terms of inducements to adjust for deficit countries -- and the concept applies with equal logic to adjustment needs of surplus countries. While other data may provide useful information affecting international judgments of adjustment need, such data should be supplementary.

46. It would, of course, be helpful to have reliable indicators of future economic performance. But we don't. It would be useful to know each nation's balance-of-payments position for the next year or two or three -- but the present state of the art does not provide data of such reliability that governments can place primary reliance on them in formulating policies for the future. Nor are governments likely to agree on any given assessment of prospects. Attempts to rely on such projections can lead to endless disputes. One has only to recall the discussions prior to the Smithsonian Agreement, of prospective cyclically adjusted current account balances, to realize the opportunities for disagreement.

47. The U.S. proposal does envisage that such "supplementary criteria" as are available should be used to assist the reserve indicators in pointing to adjustment needs. In particular, some countries may have objectives with respect to certain elements in their balance of payments, such as for the current account. And these elements in some cases may be considered more stable. Since inconsistent objectives in that respect could inhibit the process of balance-of-payments adjustment, attention to current account results and objectives could be useful. However, in the end we will require a consistency in the total balance-of-payments results (as reflected in reserve movements) and primary attention to one sector of the balance of payments, however important, would not be consistent with this requirement.

Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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NOTE TO CORRESPONDENTS June 15,1973

The attached paper, entitled "Quantative Indicators From the Point of View of the Overall Operation of the System," was made available to the Deputies of the Committee of 20 at their meeting in Washington in May 1973. It is a further elaboration of the United States proposal for establishing a system in which nations' reserve movements would serve as a quantitative indicator to guide the balance-of-payments adjustment process. The basic U.S. proposal was contained in an address by Treasury Secretary Shultz at the IMF/World Bank Annual Meetings September 26, 1972.

This paper supplements one entitled "The U.S. Proposals for Using Reserves as an Indicator of the Need for Balance-of-Payments Adjustment," circulated to the Deputies of the Committee of 20 in November 1972 and published as a supplement to Chapter 5 of the Economic Report of the President, January 1973.

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Quantitative Indicators From the Point of View of the Overall Operation of the System

The discussion of quantitative indicators has seemed to proceed mainly from a "national" point of view--with each individual nation thinking of indicators in terms of application to and effects on itself. There has been comparatively little consideration from an overall point of view--that is, how indicators would relate to the operation of the system as a whole. But a fundamental purpose of an indicator mechanism is to assure that the system is workable in its entirety. In the U.S. proposal, indicators enforce the viability of the system in two related ways--one, assuring consistency between the settlement mechanism and the adjustment mechanism; two, assuring consistency between the tolerance for imbalance in the system and the availability of reserves to finance such imbalance. The U.S. would welcome, and indeed would regard as necessary, an assessment of indicators which takes account of such questions of the overall operation of the system.

A. Consistency Between the Settlement Mechanism and the Adjustment Mechanism

An understandable first reaction to indicator proposals is concern that one's own government might be called upon to take adjustment actions at a time it does not want to undertake such actions--and accordingly to favor indicators only for "initiating consultations," but not for "inducing policy actions" or "inducing graduated pressures by the international community." But while there might be widespread support for the relatively noncontroversial move of using indicators to initiate consultations, such a move would in the U.S. view be insufficient. It would leave the monetary system without one of its indispensable requirements--the assurance of an effective and equitable adjustment mechanism.

The international monetary system cannot in the U.S. view function on a sustained basis with a settlement mechanism and obligations which are certain and definite, and an adjustment mechanism which is uncertain and indefinite. Such a system would be inherently unbalanced in its application to surplus and deficit countries; and, as experience has shown, would provide no assurance that disequilibria in the system could be kept within reasonable bounds. Such a system would break down, inevitably and probably quickly. A presumption of certainty in settlement must be balanced by a presumption of certainty in adjustment.

To make this point more vivid, in logic if the adjustment mechanism were to be uncertain--for example, if indicators were used to initiate consultation without a strong presumption that adjustment action would be undertaken, one would be forced to conclude that the settlement mechanism should be uncertain--for example, countries might initiate consultations on the extent to which imbalances might be settled with primary assets without any strong presumption of general convertibility.

The U.S. proposals envisage certainty in settlement obligations: deficit countries must promptly meet conversion requests in primary assets, except where a persistent surplus country has avoided adjustment and has reached its convertibility point--i.e., has made excessive claims on the world's stock of primary reserve assets. In our view, quantitative indicators would play a central role in assuring that the adjustment mechanism contained an equivalent degree of certainty ("certainty" in the sense that there needs to be a strong presumption that adjustment actions will be taken by surplus and deficit countries alike, though not "automaticity" in the sense that a particular country must undertake a particular exchange rate or other adjustment action when a particular indicator point is reached).

Indicators would:

--call attention to emerging disequilibria
--suggest which nation or nations should adjust to correct such disequilibria
--assure that prompt and effective adjustment actions are taken
--induce international pressures on countries refusing to correct large and persistent disequilibria.

Using indicators only to initiate consultations assures consultations but not adjustment. For countries in deficit, adjustment may eventually follow consultation--since deficit countries may eventually become unable or unwilling to continue to finance their deficits--though the adjustment might well come later and have to be larger than would have been called for under an indicator system which "induced action" at an earlier stage. But for countries in surplus, the end result of consultation may be nonadjustment. The asymmetry in disciplines and inducements has been a serious flaw in the monetary system of the past, and its elimination constitutes one of the generally acknowledged reform needs.

We cannot have an equitably balanced system if deficit countries are presumed to have to adjust until proven otherwise, and surplus countries presumed not to have to adjust until proven otherwise. The system would lack harmony and balance. It would be subject to the same strains as in the past, the same competitive, if self-defeating, interest by all countries in running surpluses. Without a country to absorb these pressures for surplus by running an offsetting deficit--as the U.S. did in the past--protectionist pressures become a much greater danger.

It is not the U.S. aim in proposing presumptive indicators to have a system in which countries would be frequently passing through deficit and surplus indicator points and directly subjected to international pressures to adjust. We would regard it a failure if the system operated in that manner. The broad purposes of the indicators are to show when adjustment is essential from the standpoint of the system as a whole; and to create built-in incentives for adjustment to eliminate deficits and surpluses without hitting indicator points and calling international pressures directly into play. Such built-in incentives for correction would not exist if indicators only initiated consultations.

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The U.S. proposal for indicators is designed to apply the same adjustment incentives to all nations, large or small, deficit or surplus. But limiting use of indicators to initiation of consultation might also result in undesirable frictions and a somewhat arbitrary distribution of adjustment burdens. Lacking an objective standard against which to measure adjustment need, it is hard to prevent some countries--the strong or the stubborn--from being able to hold out against recommendations for adjustment actions, while others cannot hold out. Not only effectiveness but equity would be missing.

B. Consistency Between Tolerance for Imbalance and the Availability of Reserves to Finance Imbalance

When considering the placement of base levels of reserves and indicator points in an indicator system, it is natural for a country to want to preserve substantial freedom of action from the system's adjustment pressures--and accordingly, assuming an exchange rate regime of central or par values, to want a relatively high base level and wide bands before indicator points are reached. That is a reasonable approach for any single nation to take from its "national" point of view--provided it accepts the consequences for the overall operation of the system. A primary consequence is that the system must be able to provide the possibly substantial amounts of reserves needed for the tolerance of relatively large and persistent surpluses and deficits in the system. If, on the other hand, the international community does not want to see the creation of substantial amounts of reserves, nations must accept the consequences of that decision and be willing to live within the constraints of a system requiring the introduction of effective adjustment measures after what might appear to be relatively small surpluses or deficits. The tolerance for surpluses and deficits must be keyed to the availability of reserves--it would be dangerous to build into the system demands for reserves which are not matched by the availability of reserves.

In the U.S. proposals, the reserve indicator mechanism acts to ensure the consistency of international reserves with the need and action of individual countries. There has been much talk in the reform discussions of the importance of "international control" over the level of world liquidity--but little specific comment on how the control should be exercised or what the level of world reserves should be. The U.S. reserve indicator mechanism represents our attempt to provide a rigorous framework for an equilibrium system based on such international decisions and control.

The reserve indicator system is aimed at ensuring the needed consistency between the supply of international reserves and national behavior in several ways.

(a) It would assure that the initial demand for primary reserves is balanced by the availability of primary reserves, by the establishment of a generally acceptable system of base levels, which each nation would accept as its primary reserve target, and by creating a world-wide supply of primary reserves equal to the aggregate base levels.

(b) It would provide a framework for determining periodic SDR allocations by collective decisions on the appropriate trend of base levels over time, and the consequent decision to allocate new SDR's equal to the increase in base levels.

(c) Irrespective of other adjustment pressures or inducements, it prevents the strain on the system which would result from excessive accumulation of primary reserves by one or more countries beyond the level justified on the basis of the total primary reserves in the system, through a convertibility point for each country where its right to accumulate additional primary reserves would be suspended.

(d) It provides safeguards against excessive permanent primary reserve creation or inappropriate adjustment pressures by permitting currency holdings to act as a safety-valve while preventing excessive reliance on currencies by the requirement that currency holdings must be at the agreement of both the issuer and the holder and by the placement of indicator points, based on total reserves, which strongly presume effective adjustment action.

PRESS CONFERENCE OF

THE HONORABLE PAUL A. VOLCKER

UNDER SECRETARY FOR MONETARY AFFAIRS

Tuesday, July 31, 1973
5:00 p.m.
Department of the Treasury

P R O C E E D I N G S

MR. WEBER: We are on the record at this point. Mr. Volcker will have a brief opening statement and then go directly to the questions.

MR. VOLCKER: A brief opening statement? This may be an opening statement. I think this may be on the record, but I think it's a rather informal affair and in a sense this meeting was rather an informal meeting without a communique. It had a good, constructive tone. I think there was a feeling that seemed to be rather generally shared that the time had not only come to move but workable solutions could be found to the various problems that have arisen in the previous work.

So there is, I think, not only a desire to get ahead but a feeling of some confidence that the desire can materialize into a workable system.

As you can imagine - maybe you can't imagine - in a meeting of this sort basically, while some preparatory material had been prepared by the deputies, people were talking rather informally without by and large attempting to pin down points with precision.

There was a lot of discussion of one point or another that needs more study, more thinking, more analysis of just what people did have in mind. But there was a feeling -- the general mind -- that solutions on the various points could be found.

The only other thing I would say is that this seems easier probably in some areas than in other areas where certainly differences remain.

QUESTION: Mr. Volcker, can you sort of give us your idea of what the timetable will be now for reform, after this meeting?

MR. VOLCKER: I don't know whether Mr. Wardana may have offered any comments on that or not in talking with you and not knowing what he said, I don't want to risk being contradictory in any sense. But in very general terms, I think there will be an effort in some form or another to say or publish in Nairobi where things do stand, in a written document.

I don't think anybody expects that to answer every point by any means in a conclusive way, but to go far enough so in a rather intensive period, looking ahead from there, you can hammer out a basic agreement and go ahead and write the articles.

Now, I'm talking about a period of months, obviously, beyond Nairobi, before you reach anything that could be called a detailed agreement.

It's a host of specific issues that are here.

QUESTION: Well, would you try to specify for us where the differences were narrowed and what are the areas where the problems still remain?

MR. VOLCKER: Well, I think, in a sense, perhaps this was clearest on a set of questions under the adjustment process which was dealt with together with some convertibility issues. I would certainly think there's a clear understanding around the table, that on the one hand you can't have a fully automatic system on adjustment matters by and large, and I think that point at least was clarified. We are not talking about an automaticity of adjustment.

On the other hand, I think, on the part of countries other than the United States, the idea of objective indicators -- particularly the reserve indicator as a particularly prominent indicator -- got quite a lot of weight from some speakers. You can't speak in terms of unanimity about these matters.

In general, I think you can describe agreement around the table on such basic notions, pinned down in a harder way than they were before, as the idea of symmetry, that the pressure is applied to the surplus and deficit countries in as congruent a way as possible, recognizing that there are differences in the natural pressures, let's say, falling upon deficit countries as opposed to surplus countries.

There was a recognition that in addition to the need to really devise something that made the process as symmetrical as possible, the idea of what Secretary Shultz in fact quoted as "backbone" in the adjustment process is essential. That was the word that he used, but I think the concept is very widely accepted.

You not only talk about symmetry or talk about adjustment for that matter, but you have a system, which by some rules defines the obligations clearly enough--defines the goal of equilibrium clearly enough--so that you do have backbone and symmetrical backbone. Of course, this is in part where the idea of indicators comes in.

QUESTION: Mr. Volcker, what about the degree of presumption, was that the shadings of meanings there worked out?

MR. VOLCKER: Well, when you say the shadings of meanings, I think that is the kind of thing that goes further than you can claim agreement on. It just wasn't the kind of meeting where you could pin down these gradations, and undoubtedly, gradations of that sort will continue to characterize peoples' positions. I suppose what I am saying is we're talking more in a range where you can narrow the question to gradations and that's an important distinction.

I think it's more clearly in people's minds, on the one hand automaticity, is not it, that pure discretion without guidelines, without objective indicators, is not it.

Now, just how you use the indicators has to be pinned down.

QUESTION: In that connection, would you say that there is yet agreement in principle that the pressure to be applied should take the form of what we think of as sanctions, whether a tax on your reserves or a trade surcharge or --

MR. VOLCKER: You get into semantics questions here. Nobody much likes to use the word sanction. Pressures in a sense -- and more incentives than pressures -- is perhaps the way it's put more commonly. But obviously -- let's say that that covers the concept of sanctions.

There was discussion of that. Again, I would say -- I'm not quite sure you can say unanimity was reached on this poi as you can with these other basic principles I mentioned. But a very widespread feeling exists that incentives and pressures have to b part of the process, although I think there's nobody at the table -- you can say there's unanimity on this -- wants the system basically to work through pressures.

The fact you may need pressures in the background is one thing but you hope and expect that the system really doesn't have to evoke those overt pressures very frequently. But it's important that they're there.

There is a very widespread acceptance of that notion. I would think, if it's not unanimous, it comes very close to unanimity on the financial type pressures.

When you get into trade pressures, the opinion would be somewhat more scattered. There was considerable discussion of that notion, but I don't want to say that it's accepted.

QUESTION: Of the trade pressures?

MR. VOLCKER: Of the trade pressures and of course, this again leaves a lot of room for exactly what the pressures are, how they're applied. So again, it's that same basic kind of question, the very broad principle you cited is accepted, but it doesn't mean there isn't a lot of discussion in just how the concept is applied.

QUESTION: How do you feel about the idea of setting up, sort of a new unit within the IMF, to sort of police the adjustment process, or guide it?

MR. VOLCKER: Well, yes there was some discussion, although it was not central in a sense that there was no specific agenda topic to talk about the structure of the Fund. A number of Ministers alluded to this at one point or another in their remarks, but the discussion on that point wasn't as focused as on some other points, and I don't think it's reasonable for me to try to characterize prevailing opinion, other than to say that it was obviously on their minds.

QUESTION: How about a U. S. view on it?

MR. VOLCKER: Well, we have thought - in the U. S. view - that it is important to get some restructuring of the Fund in several directions.
The concept of the whole reform entails a strengthened Fund - I think everybody's idea of reform

entails the idea of a strengthened Fund.

Now, that's a pretty broad term. How do you define a strengthened Fund? We think of this in terms of the importance of strengthening the basic rules of the system in part, of which the Fund is a custodian.

But you have a body of law, rules, whatever, that are pretty clearly understood and the more agreement you can get on rules and not leaving it to judgment, the better off you are

But obviously, there's got to be room for judgment in applying the rules in any system. Others would have fewer rules and more judgment, and we suggest less judgment and more rules, but that's just a matter of degree.

But when you're dealing with something as important and sensitive as the adjustment process, but in other things too, as exchange rate changes, domestic measures or controls or whatever it is that affects external adjustment, you're talking about important, sensitive and difficult things, both economically and politically, in terms of the member governments.

So, it is important as we see it, if the Fund is going to play its role successfully, that it have an input, it be helped, it be assisted, it be given appropriate stature by having suitable people from home governments, so to speak, with some political responsibility and responsibilities in their home governments, participating as actively as possible.

Now, it's not possible for them to participate every day, so you have various suggestions for a revamped executive board, a new type of executive board, continuation of the group of 20 for dealing with more current problems. I think, none of those ideas anybody wants to feel committed to any particular version of.

But there is certainly the United States' intent and I don't think we're alone here -- in getting some changes in that direction. And there's also a question of the structure of the Fund in terms of its relation to other organizations and other types of problems. As you probably know, we've been in favor of doing what can be done to increase coordination between the Fund and other international bodies to deal with other areas of the international economy -- trade, investment, whatever.

QUESTION: How about the convertibility question? You haven't discussed that yet. Was there some narrowing of differences there on the famous question of looseness or tightness?

MR. VOLCKER: I frankly expected before the meeting that because of some of the technical complexities of that subject, it was going to be a little harder to know from this kind of discussion just what was said and what the attitudes were.

I think what was said at the meeting kind of confirmed that impression. It's a little harder to pick out just what was said and the implications of it at all times.

There is a relationship between convertibility and the adjustment process which was, I think, clearly recognized by everybody, partly because a convertibility system kind of automatically puts pressure.

It's automatic in this sense, on the deficit countries, and there was recognition, I think, of one of our basic points, that that is true inherently in the convertibility system.

That's one of the reasons why you have to worry so much about the adjustment process on the other side to make it symmetrical.

I think there was some feeling - maybe there's not been that feeling before -- that we really -- I'm speaking for the United States now -- are talking about a convertibility system.

All the proposals are in that context. We have touched upon the question, and not alone in this respect, as to whether this might look somewhat differently -- in terms of the operation of the system and the operation of convertibility -- in the context of a so-called multi-currency intervention system.

But that is an area which hasn't been carried forward frankly, in any detail, in the technical work, so while I think it is there as a concept to be thought about and we have put that forward and others have, I think there is some feeling that it is something to be talked about later and maybe the convertibility problem will then come in a somewhat different guise.

QUESTION: In what, in multi-currency?

MR. VOLCKER: Multi-currency intervention.

QUESTION: A point in taking the question of convertibility and adjustment being related, you have previously spoken about reserves being the prominent indicator, but if on convertibility you get negative income tax in people's reserves and they rise above a certain point, haven't you in effect got the prime indicator on the convertibility side, instead of the adjustment side as they're related to what you wanted in the first place?

MR. VOLCKER: I'm not quite sure I follow the question.

QUESTION: Well, in a sense you're asking for reserves to be the primary indicator.

MR. VOLCKER: Right.

QUESTION: Now, convertibility when people -- I think the French have suggested and most of the Europeans go along that when your reserves go above a certain level, you pay a negative income tax, in effect supply sanction to the IMF, which would be a pressure on you to devalue and in that sense you've got what you want.

MR. VOLCKER: You say pressure to devalue, I say pressure to adjust.

QUESTION: Take correct measures.

MR. VOLCKER: This is a proposal and I shouldn't really comment in any detail on a proposal which didn't originate with us, nor has it been spelled out in great detail but that is one of the things that has recognized the symmetry problem as kind of an indicator problem. There's no question about it.

And it also brings with it an automatic penalty in that particular proposal.

QUESTION: Is this something you think is feasible and can be worked out?

MR. VOLCKER: Well, I think it is a straightforward attempt to come to grips with this kind of problem, and I think this is an example of why I characterize the meeting in general-- I think people generally would -- the way I did at the start. There is a feeling that these kind of legitimate aims on all sides can be brought together in some kind of a workable solution. Maybe somebody hasn't thought of yet a completely magic way to reconcile everybody. I suppose everybody doesn't get fully reconciled in the end.

But there is a feeling of an effort to come together by this and other devices.

QUESTION: To go back to the writing of the rules. Do you think that there will have to be a new treaty that must be submitted to Congress for ratification?

MR. VOLCKER: Oh, yes, there's no question that the end-product of this effort is, I think, what you can call a new Articles of Agreement in the International Monetary Fund.

Now, people may have differing opinions whether you begin rewriting it from Article 1 through Article 16 or whatever the last one is, or whether you -- you don't have to touch them all.

But in any event you are talking about substantially new articles which will have to be ratified by the Congress -- there's absolutely no question about it - ratified by other legislatures and it should be, because you are talking about an international agreement that really is, if it's going to work, committing countries to particular courses of action.

QUESTION: But do you think the system could be put in place, at least partially, before the ratification process is completed?

MR. VOLCKER: Well, you may, I think, be able to put some parts in place, perhaps, if there's general agreement. You can certainly act in spirit within the framework of what you have not yet formally agreed to.

But let me point out in that connection - in any monetary reform there is a very big transitional problem. We presently have big disequilibria in payments. Those disequilibria are now moving towards being narrowed and we have some time before a new agreement comes into effect, so let's hope that they are substantially narrowed by the time the agreement comes into effect.

But it also leaves a residue of some disequilibria in reserve levels, for instance. That is the most obvious thing. There are reserves that are depleted, others are way up. So you've got, even in the context of the formal new agreement, to deal with some transitional problems which, I think it's fair to say have had very little discussion so far because there is a feeling you can't deal with the transition pointing to a specific new agreement until you see the specific new agreement.

Now we're dealing with the transitional problem in the less formal sense right now.

QUESTION: Does that mean that there will be a substantial delay before the United States can really carry out convertibility obligations?

MR. VOLCKER: Well, that question I think answers itself. We've answered it before. We can't assume convertibility obligations until we have the capacity to assume it on the one hand, and on the other hand until it's part of the concept of a system that is fair and balanced.

So it's a combination of a transitional problem and a reform problem.

In terms of putting parts of the system into effect, there is a clear recognition on all sides how difficult it is to deal with any of these problems, to reach a conclusive answer in isolation, because every one bears upon another.

It's quite obvious in the case of the convertibility adjustment thing, where you might take a different approach toward adjustment and be content with a less convertible system, or you might take a strict approach toward convertibility and force stricter adjustment in the system, whichever way you want to put it.

But the interrelationship is also true of the question of reserve assets.

For instance, how they operate affects convertibility and affects adjustment. There's consciousness on all sides that this is a puzzle that you're not really satisfied with in any part until all the major pieces at least are there.

QUESTION: Was there any discussion of a way to aid development?

MR. VOLCKER: Yes. I think our position is well known on that score and a number of other countries, I think it's fair to say, have expressed a contrary opinion to some degree.

Now, there's a large matter of degree involved in the position of other countries but I think I shouldn't speak

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to that.

Our position has been mixing up development assistance, however sympathetic one is towards development assistance, and we are certainly sympathetic -- with the monetary asset is not good for monetary reform nor development assistance.

QUESTION: Will it be possible to get an agreement without -- excuse me, to get the less developed countries to sign on?

MR. VOLCKER: Well, they feel very strongly, but that remains to be seen, of course.

QUESTION: Was there any kind of consensus that seemed to be some signals of that on a kind of future approach, creating the link but not doing it now?

MR. VOLCKER: I can't speak of the consensus on that point. I would have to get into other people's positions. We have felt that this is, as I said, a problem that's best left out in this reform, and I think there is a lot of intellectual recognition of the wisdom of our position and there is a lot of recognition that it could be a particular complication in the early years of heavy use of SDR's.

So there may be some widespread feeling in that sense. Some may kind of wish that this could be deferred for a period of time so that a monetary system on its own is well established with the SDR's before this complication is introduced but that would take me more --

QUESTION: Is there something else that could be done for developing countries short of this link, to help bring them along in this exercise?

MR. VOLCKER: In terms of the general development problem there are clearly two things. You can provide development assistance which we do through the normal processes and there have also been initiatives, of course, towards trade preferences. We have a bill in hand -- I hope it's in hand -- in the Congress now that makes some progress in that direction.

The biggest thing that the developing countries have -- the biggest interest it seems to me -- I'm just speaking now as an American, of course, is that the monetary system works effectively and smoothly and this leads to an open society in world economics in which their economies would prosper.

That's the most important thing we can do in this area in the interest of developing countries.

QUESTION: What happened to the question of the link between monetary and trade in terms of timetable and negotiation?

MR. VOLCKER: Well, I don't want to observe or make particular observations on the discussion on that matter that have been going on elsewhere right at the moment, but I would say in this particular meeting, there was not time on the agenda for that topic. We have always thought and continue to think that these things ought to be looked at as much as possible as a whole. It was touched upon in this meeting only in a sense of the importance of the Fund having some means of improved coordination with trade organizations and also other international economic bodies.

This did not loom large in the discussion, but it was a point that was raised.

QUESTION: Mr. Volcker, how would you characterize the discussions on gold? I'm particularly interested in one aspect. There have been references to the fact that as to the timing of when or how soon the Central Banks would sell gold on the free market. When the European Central Banks, they would only sell unwanted dollars. On unwanted dollars, they would do it sooner.

So the European position was characterized as one where they would be hoping that the United States would sooner than they sell gold and absorb dollar claims.

MR. VOLCKER: Well, this in a kind of current context didn't arise at all in these discussions. There was discussion of the gold issue as part of the reserve asset issue, and I would not think that was one of the areas in which the discussion was advanced particularly further than it had been.

Certainly a general feeling was that the SDR's are the accepted prime asset in the future and the implications for a declining role of gold were widely accepted as a correlary of that.

Mr. Shultz put it "phase it down and out." But when it comes to techniques, there are various ideas on technique.

QUESTION: Any discussion about making the SDR more valuable, more attractive?

MR.VOLCKER: Yes, this got a considerable amount of discussion as to how the SDR should be valued, in terms of what was the nature of its exchange guarantee and the nature of its interest rate and which of those should be emphasized -- its stability relative to currencies or the interest yield.

I think that pretty clearly is an unresolved issue. You're almost inclined to say it's a technical issue until you realize that it does have important implications for the adjustment process and how convertibility works.

It has been our feeling that, if the SDR carries an excessive interest rate, you positively hamper the adjustment process. If you look at it solely from the standpoint of a man acquiring SDR's and make it highly attractive, he wants to hang onto it, which is another way of saying he wants surpluses and doesn't want deficits.

He'd be very reluctant to part with it. There is a question certainly which everybody recognizes, of making the SDR capable of carrying the burden and having the confidence that's necessary for an asset at the center of the system so you're left with conflicting considerations here in a sense.

QUESTION: Would you say that there is agreement yet that there would not in the future system be any official price of gold?

MR. VOLCKER: No, I cannot say that there is agreement on that.

QUESTION: Are you saying that there is agreement or not?

MR. VOLCKER: No, I cannot say there is agreement on that possibility, which is one of the possibilities set forth in this general context typically of diminishing the role of gold and moving SDR's into central assets.

MR. WEBER: One last question, please.

QUESTION: Is the position you just stated related to the same question of central banks should be able to buy gold in the markets or just sell?

MR. VOLCKER: I would not -- I wasn't aware of having stated that position.

QUESTION: No, I mean you said in your opinion no general agreement on the -- if there should be a gold price, an official one, and I was asking if this is your position or caution to the question, if Central Banks should be able to buy and sell gold in the markets.

MR. VOLCKER: Well, all these are linked and I'm not sure I understand what you're driving at fully here. There are several options here: do you have an official price or not have an official price; do you only sell on the market or do you both buy and sell; at what price do Central Banks trade at an artificial price among themselves.

There are all sorts of variants and you'll probably find someone combining each of those variants in somewhat different ways.

There is simply nothing that could be identified as a consensus on the technique in this area, although you're close to a consensus -- I'm not sure whether you can say you got a full consensus -- on the general role of gold as a diminishing reserve asset.

QUESTION: In a general way - coming back to what you said at the beginning about general agreement at the time and workable solutions.

Can you tell us just briefly why has the time come now, or how do you explain --

MR. VOLCKER: Shall I say the deputies have done such a good job or something of that sort.

Well, as we have kept saying, and I'm sure bored you no end and it wasn't much news for the past year, there had to be a lot of discussion on some of these issues before people even knew where they stood, or at least understood where the other people stood, and I suspect in some cases knew where they themselves stood.

And you just have to go through this kind of torturous kind of intellectual process. But apart from that I think there is some feeling that the present situation is ripe in a sense

We have had big disequilibria and we have had a lot of upset and turmoil in the system. That is part of the process of correcting this dis-equilibria. We also have a lot of inflation which hasn't been at all helpful. Under these conditions, this transitional regime is appropriate. But the feeling, I think, has also impressed itself upon people generally that, while it's appropriate for this situation, this is not monetary reform.

This is not what you want to see in the long run. There is a need for rules and of a system and a kind of predictability of reaction and known sense of what the rules are. This has been felt, I think more strongly perhaps. It's a good feeling, because it's right.

As we've been through this transitional period, the sense of an absence of rules I think quite correctly bothers people. It relies too much on ad hoc decisions and ad hoc judgments and the sense of that has, I think, become strong.

THE PRESS: Thank you.

(Whereupon, at 5:35 p.m., the briefing was concluded.)

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

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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.

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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 W04-2041

367

FOR RELEASE 6:30 P.M. August 27, 1973

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.5 billion of 13-week Treasury bills and for $1.8 billion of 26-week Treasury bills, both series to be issued on August 30, 1973, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing November 29, 1973		26-week bills maturing February 28, 1974	
	Price	Equivalent annual rate	Price	Equivalent annual rate
High	97.841	8.541%	95.703	8.500%
Low	97.796	8.719%	95.657	8.591%
Average	97.809	8.668% 1/	95.664	8.577% 1/

Tenders at the low price for the 13-week bills were allotted 83%.
Tenders at the low price for the 26-week bills were allotted 32%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 40,690,000	$ 30,690,000	$ 23,425,000	$ 13,065,000
New York	2,972,750,000	2,023,740,000	2,694,980,000	1,424,480,000
Philadelphia	43,155,000	23,155,000	11,715,000	11,715,000
Cleveland	36,840,000	36,840,000	51,825,000	41,420,000
Richmond	33,085,000	29,085,000	21,990,000	19,130,000
Atlanta	25,585,000	23,575,000	19,830,000	15,970,000
Chicago	210,525,000	121,515,000	268,095,000	42,325,000
St. Louis	44,045,000	24,045,000	56,000,000	24,500,000
Minneapolis	14,750,000	10,715,000	12,535,000	4,175,000
Kansas City	29,805,000	24,305,000	26,600,000	18,170,000
Dallas	47,680,000	25,510,000	44,660,000	13,710,000
San Francisco	185,310,000	127,130,000	213,045,000	171,745,000
TOTALS	$3,684,220,000	$2,500,305,000 a/	$3,444,700,000	$1,800,405,000 b/

a/ Includes $328,050,000 noncompetitive tenders accepted at the average price.
b/ Includes $226,165,000 noncompetitive tenders accepted at the average price.
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 8.98 % for the 13-week bills, and 9.09 % for the 26-week bills.

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368

FOR IMMEDIATE RELEASE August 28, 1973

TREASURY ANNOUNCES TENTATIVE DISCONTINUANCE OF ANTIDUMPING INVESTIGATION ON RUBBER THREAD FROM ITALY

Assistant Secretary of the Treasury, Edward L. Morgan, announced today a tentative discontinuance on the investigation of rubber thread from Italy under the Antidumping Act of 1921, as amended. Notice of this decision will appear in the Federal Register on Wednesday, August 29, 1973.

The investigation revealed some instances where the price to the United States was lower than the adjusted home market price of this merchandise. However, these were determined to be minimal in terms of the volume of export sales involved. Formal assurances have been received from the Italian manufacturer that no future sales of rubber thread for export to the United States will be made at less than fair value.

During calendar year 1972, imports of rubber thread from Italy were valued at approximately $449,000.

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

369

FOR IMMEDIATE RELEASE August 29, 1973

MARTIN J. BAILEY RESIGNS AS
DEPUTY ASSISTANT SECRETARY FOR TAX POLICY

Secretary of the Treasury George P. Shultz has accepted "reluctantly" the resignation of Martin J. Bailey as Deputy Assistant Secretary for Tax Policy (Tax Analysis), effective August 31. Mr. Bailey will join the faculty of the Carnegie-Mellon University in Pittsburgh as Visiting Professor.

In accepting Mr. Bailey's resignation, Secretary Shultz noted in particular his important contribution to the development of tax changes proposed by the Administration in April, and said "... you have distinguished yourself and the Department."

Mr. Bailey was appointed Deputy Assistant Secretary in August 1972. He came to Treasury from the Brookings Institution, where he was Visiting Research Professor of International Relations and Senior Fellow. He previously had taught economics, law, and public policy in the United States and abroad, and had served as an economist for the Institute for Defense Analyses and as an assistant to the Assistant Secretary of Defense.

S-270

OVER

A native of Taft, California, Mr. Bailey is a graduate of the University of California, Los Angeles, from which he received his B.A. degree with highest honors in 1951. He earned advanced degrees from the Johns Hopkins University, receiving his M.A. degree in 1953 and his Ph.D. degree with distinction in 1956. Mr. Bailey is a member of Phi Beta Kappa and the American Economic Association, and is the author of books, many articles, and studies on general economics, taxation, and finance.

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370

FOR U.S. TREASURY DEPARTMENT

PROGRAM CBS MORNING NEWS STATION WTOP TV
CBS Network

DATE August 29, 1973 7:00 A.M. CITY Washington, D.C.

AN INTERVIEW WITH TREASURY SECRETARY SHULTZ

SALLY QUINN: President Nixon is saying these days he's confident his economic policies are going to "bring inflation down to reasonable levels," as the White House puts it. Barry Sarafin is in Washington this morning with one of Mr. Nixon's money men, Treasury Secretary George Shultz.

Barry?

BARRY SARAFIN: Mr Secretary, everything you and other economic spokesmen for the administration have been saying lately has, in effect, been a warning to look for some pretty rough inflation ahead. How bad is it going to be and for how long?

TREASURY SECRETARY GEORGE P. SHULTZ: We think that we have a bulge of inflation ahead of us as we unwind from the very large cost increases which have derived from the intense competition in international markets for commodities like oil and food that are traded there. After we get through with this bulge, we see the pace of inflation moderating. But we have tried to be as candid as possible with the American people in saying that there are problems ahead.

SARAFIN: Well, if you're -- if you were talking to the American shopper and telling him what to look for next week or next month or two months from now in the supermarkets, how much extra money would you tell him to take?

SECRETARY SHULTZ: Well, not necessarily any. That is, I think that the -- the -- what the American housewife seems to be doing -- and I know what my wife is doing -- is trying to change the pattern of purchasing so that with the same money, or perhaps a little bit more money, you can get the essential food values that you need without having to just buy all the same things that you used to buy.

SARAFIN: Well, I've seen reports that your wife is canning more and...

~~372~~
371

SECRETARY SHULTZ: Yes, she's...

SARAFIN: ...serving less meat and so on. But -- but you make $60,000 a year. What about somebody on a low income or somebody on a fixed income? How do they get past this inflation -- especially...

SECRETARY SHULTZ: Well, that's...

SARAFIN: ...what's coming?

SECRETARY SHULTZ: They, I'm sure, have to look at their diet and the different pattern of things they eat. Canning is not difficult for anybody to do. And...

QUINN: Mr. Secretary...

SECRETARY SHULTZ: ...I think those are all adjustments that people make.

I do think, however, there are some good spots on the horizon now that we can point to, without trying to act as though everything is in great shape on the inflation front. We have seen the pattern, for example in broilers where when the freeze ended they were at about 50 cents a pound, they have skyrocketed up to about 74 cents a pound (and that is the level at which the next Wholesale Price Index reading will come out), but since that time they've dropped back again -- a couple of days ago was the last I noticed -- to 55 cents a pound. So they went way up and they have come down. And I notice on the commodities exchanges out in Chicago in the last three or four days there's been a steady downward movement in many of the commodities that had been going up so spectacularly. So there is an adjustment process that takes place, and it's beginning to unfold.

QUINN: Mr. Secretary, this is Sally Quinn in Washington.

SECRETARY SHULTZ: Hi, Sally.

QUINN: Hi.

HUGHES RUDD: New York.

QUINN: I -- oh, sorry. [Laughs] Getting off to a bad start.

SECRETARY SHULTZ: It's pretty early for everybody.

QUINN: No, I wanted to get back to what you said a few minutes ago, because I think that -- that there's a lot of talk

372

about this but people when they're actually faced with -- with going into a supermarket do find that prices are higher. And you were talking...

SECRETARY SHULTZ: No doubt about it.

QUINN: You -- you were talking about how you shouldn't bring more money but that you should buy differently. Can you give us an example of that? I don't quite know what you mean by that.

SECRETARY SHULTZ: Well...

QUINN: If you were going in with the same amount of money today as you did last year, how would you buy differently?

SECRETARY SHULTZ: Well, for example, we hardly ever have bacon in the morning anymore, so we just don't buy that. And we can get along all right without bacon; that's not a big problem. You can change the pattern of your buying of the different kinds of meat. We eat a lot more turkey than we used to; we have been eating more ham lately than we used to. And we haven't had a -- a nice juicy steak for a long while in my household. So that's an example of a change in pattern of buying as far as meat is concerned.

QUINN: The way you...

SECRETARY SHULTZ: Barry referred to the fact that my wife has been doing a lot of canning this summer. And she has. She's been canning fruit and vegetables and putting them up, both in the jars and in the freezer. So that's a pattern of behavior, not necessarily buying, that will save us money as the winter unfolds.

SARAFIN: But still isn't it terribly difficult for someone who has been on a fixed income, welfare or pension or something, for several years to have to cope with this thing?

SECRETARY SHULTZ: Well, sure it's difficult. I'm -- I don't -- I'm -- I know that. And so we have a problem. And the question is, how do we solve the problem? And I think we solve it, first of all, by at the level of government policy doing everything we can to increase the supply of these foods. And, boy, we have really been working on that from quite a long while ago, and it is beginning to pay off, and we're seeing it in these gigantic crops that are going to be coming to market pretty soon now.

So government policy has to increase supplies. Now as...

RUDD: Mr. Secre-...

SECRETARY SHULTZ: ...far as individuals are concerned,

373 374

they also make adjustments. And it's because the housewife is so canny about making adjustments and resists these high prices that we see some of these prices coming down, because the housewife is making a change in her pattern of buying.

RUDD: Weren't you against controls right from the beginning, Mr. Secretary?

SECRETARY SHULTZ: I -- I never have been an advocate of wage and price controls.

RUDD: Well, what do you...

SECRETARY SHULTZ: I think we have gotten some mileage out of them. But they are of limited value. And of course the big thing we have to do, as I was saying a moment ago, is increase the supply of the things that are scarce and of course maintain a sensible and reasonable budget policy and monetary policy that basically controls -- makes control over the whole thing.

RUDD: What...

QUINN: Do you think we should have had them at all?

SECRETARY SHULTZ: I think we got some mileage, particularly in the beginning, out of them, yes.

SARAFIN: President Nixon has talked about hopefully removing controls by the end of this year. Do you think that's likely?

SECRETARY SHULTZ: His Labor/Management Committee, which is a very good and high-powered committee, recommended that they be dropped by the end of the year. And the President said that he felt that was a good objective but he declined to set any time. And the reason for that is that we want to do everything we can to use the controls as strongly as is possible, and the minute you set a date when some program is going to end, you undermine the ability to administer that program -- it's hard to get good people to work on it, and it's hard to get people to take the program seriously. So the President, in the interests of making this effort to control inflation go as strongly as possible, even though he doesn't like wage and price controls either, has refrained from setting any kind of an end-point date.

SARAFIN: Mr. Secretary, what about the so-called "credit crunch," the difficulty now in -- in getting mortgages in some areas? When will there be some relief in that area?

SECRETARY SHULTZ: Well, it isn't so much a difficulty in getting the money, there seems to be plenty of money around, but you have to pay a very high price for it.

SARAFIN: Well, all right.

374

SECRETARY SHULTZ: And so that is where the difficulty lies. And of course this is one of the ways in which discipline comes to the economy in -- in monitoring the use of -- of our resources.

Now, I hesitate to make a forecast about interest rates, because in the Treasury we -- we work on that subject a lot and we do things about it. But I do have the feeling that they're up pretty darn high now and aren't likely to stay at these levels for too long.

QUINN: Mr. Secretary, I don't think you have time to make a forecast, because we have to go. Thank you very much.

RUDD: Thank you, sir.

SECRETARY SHULTZ: Thank you.

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

375

FOR RELEASE 6:30 P.M. August 31, 1973

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.5 billion of 13-week Treasury bills and for $1.8 billion of 26-week Treasury bills, both series to be issued on September 6, 1973, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing December 6, 1973		26-week bills maturing March 7, 1974	
	Price	Equivalent annual rate	Price	Equivalent annual rate
High	97.806	8.680%	95.617	8.670%
Low	97.772	8.814%	95.577	8.749%
Average	97.781	8.778% 1/	95.584	8.735% 1/

Tenders at the low price for the 13-week bills were allotted 7%.
Tenders at the low price for the 26-week bills were allotted 96%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 36,850,000	$ 24,850,000	$ 21,125,000	$ 9,125,000
New York	3,118,825,000	1,904,715,000	2,621,980,000	1,353,540,000
Philadelphia	21,510,000	21,510,000	26,930,000	6,930,000
Cleveland	32,520,000	32,520,000	78,630,000	42,120,000
Richmond	27,565,000	25,565,000	10,510,000	10,510,000
Atlanta	23,115,000	23,115,000	26,650,000	17,835,000
Chicago	300,845,000	189,905,000	336,245,000	178,245,000
St. Louis	50,460,000	30,530,000	59,670,000	33,970,000
Minneapolis	17,380,000	17,380,000	15,870,000	12,870,000
Kansas City	33,515,000	26,915,000	25,075,000	15,685,000
Dallas	44,210,000	18,920,000	58,210,000	10,510,000
San Francisco	195,910,000	184,710,000	165,875,000	115,755,000
TOTALS	$3,902,705,000	$2,500,635,000 a/	$3,446,770,000	$1,807,095,000 b/

a/ Includes $301,515,000 noncompetitive tenders accepted at the average price.
b/ Includes $159,460,000 noncompetitive tenders accepted at the average price.
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 9.10% for the 13-week bills, and 9.27% for the 26-week bills.