U.S. Treasury Dept.

Press Releases.

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

FOR IMMEDIATE RELEASE September 4, 1973

BRUCE M. BEARDSLEY TO HEAD
OFFICE OF COMPUTER SCIENCE

Treasury Secretary George P. Shultz announced today the appointment of Bruce M. Beardsley, 41, as Director of the newly established Office of Computer Science in the Office of the Secretary.

Mr. Beardsley was formerly manager of the Computer Science Center at the National Reactor Testing Station in Idaho Falls, Idaho, a facility operated by the Aerojet Nuclear Company for the Atomic Energy Commission. He received his B.S. degree in mathematics and physics from Brigham Young University, Provo, Utah, in 1956, and thereafter did additional graduate work at U.C.L.A. through 1958.

In his new post at the Treasury Department, Mr. Beardsley will administer a staff to provide a complete analytical and data processing service to the Office of the Secretary. The data processing systems include a UNIVAC 1108 computer including a variety of capabilities in remote input-output terminal systems.

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Born in Pocatello, Idaho, on August 4, 1932, Mr. Beardsley has been engaged in analytical investigations, management information system design and implementation, and research toward hardware and software systems for conversational programming, engineering graphics, and other on-line, "real time" applications since 1955.

He has served as Chairman of the Atomic Energy Systems Operations and Programming Association, and is a member of many professional associations, including the Association for Computing Machines and the American Nuclear Society. He is the author of numerous technical papers, is listed in Who's Who in Data Processing, and has been an instructor at the University of Idaho.

Mr. Beardsley is married to the former Joan Klein. They have five children, two daughters and three sons. The family lives in Camp Springs, Maryland.

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FOR IMMEDIATE RELEASE September 4, 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 13, 1973, in the amount of $ 4,303,405,000 as follows:

91-day bills (to maturity date) to be issued September 13, 1973, in the amount of $ 2,500,000,000, or thereabouts, representing an additional amount of bills dated June 14, 1973, and to mature December 13, 1973 (CUSIP No. 912793 SHO) originally issued in the amount of $ 1,700,840,000 the additional and original bills to be freely interchangeable.

182-day bills, for $ 1,800,000,000, or thereabouts, to be dated September 13, 1973, and to mature March 14, 1974 (CUSIP No. 912793 TCO).

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, September 10, 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 13, 1973, in cash or other immediately available funds or in a like face amount of Treasury bills maturing September 13, 1973. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder must include in his income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

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

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FOR IMMEDIATE RELEASE September 4, 1973

TREASURY ANNOUNCES SIMULTANEOUS WITHHOLDING OF APPRAISEMENT AND SALES AT LESS THAN FAIR VALUE EXPANDED METAL OF BASE METAL FROM JAPAN UNDER THE ANTIDUMPING ACT

Assistant Secretary of the Treasury Edward L. Morgan announced today Treasury's actions with respect to expanded metal of base metal from Japan under the Antidumping Act of 1921, as amended. This metal is produced from steel plate and sheet and is used primarily as flooring and platforms for pedestrian traffic.

These decisions will be published in the Federal Register of September 5, 1973.

Assistant Secretary Morgan announced that expanded metal of base metal from Japan is being, or is likely to be, sold at less than fair value. The case will now be referred to the Tariff Commission for a determination as to whether an American industry is being, or is likely to be, injured.

Simultaneously with the determination of sales at less than fair value, the Treasury Department issued a three-month withholding of appraisement order covering imports of this merchandise from Japan. The significance of the three-month withholding of appraisement is that imports of the merchandise will not be appraised for the three months pending the Tariff Commission's determination. If the Tariff Commission issues an affirmative injury determination, dumping duties will be assessable effective as of the date of the withholding action. If the Tariff Commission issues a negative injury determination, the case will be closed, and no dumping duties will be assessed.

During the year beginning April 1972, imports of expanded metal of base metal from Japan were valued at approximately $1.3 million.

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FOR RELEASE UPON DELIVERY

REMARKS BY DR. WILLIAM A. JOHNSON
ENERGY ADVISER TO
DEPUTY SECRETARY OF THE TREASURY WILLIAM E. SIMON
BEFORE THE
PRESIDENTIAL INTERCHANGE EXECUTIVES
THE BROOKINGS INSTITUTION
WASHINGTON, D. C.
SEPTEMBER 12, 1973

Ladies and Gentlemen:

It should be clear to all that our Nation is faced with an energy crisis. What is not universally accepted are the reasons for this crisis and, especially, what must be done to correct it.

At the risk of overgeneralization, let me begin by making several rather sweeping assertions. First, there is both a long and short-term energy problem. The long-term problem involves the possible depletion of our oil and gas reserves with time, as our economy and population grow. But this Nation has abundant untapped energy resources, such as coal, oil shale, and solar and geothermal power. The ultimate solution to the long-term problem is research and development. It is the utilization of energy sources not now economically or environmentally possible or even contemplated under existing technology.

I am less concerned about the long-term problem, largely because there have been cries of doom many times before and in each case we have been able to survive. For example, a report by Arthur D. Little has declared:

> To infer that still other oil fields remain to be disclosed (in the United States) is almost as unreasonable as to assert that the country has not been fully pioneered....
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> The only hope of maintaining our present rate of supply (of oil), let alone the present rate of growth, looks out abroad to the known Mexican fields, in particular, and to the Central and South American possibilities in general. (Parentheses supplied.)

That report, incidentally, was written in 1920.

Of greater concern to me is the short-term problem -- the shortages of energy supply relative to demand that can be expected during the next 10 years. This short-term problem is largely a fossil fuel problem. Moreover, this problem has nothing to do with depletion of fossil fuel reserves; it has everything to do with our failure to develop these reserves as rapidly and effectively as possible.

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And this leads me to my final and, perhaps, most sweeping generalization: our short-term difficulties with gas, coal, and oil are, very largely, the result of various policies of Federal, State, and local governments. For years, we have been sacrificing the long-run interests of the Nation to secure short-run objectives such as unrealistically low prices for consumers and the too rapid application of environmental controls and restrictions. Now, unfortunately, we are paying for past policies.

Natural Gas

Let me begin by presenting a brief overview of some of these policies. First, natural gas. In no segment of the industry have our policies been so wrong or created such damage as in gas. I refer primarily to the regulation of natural gas prices at the wellhead.

The conscious decision of past Federal Power Commissions to keep gas prices as low as possible, regardless of the consequences on future exploration, and, worse, to change retroactive prices already approved by the FPC, has discouraged investment in drilling. In the 10 years since 1962 gas well completions have fallen from 5,848 wells to 3,830 wells per year. As a result, we are now withdrawing natural gas from reserves at twice the rate at which we are adding gas to reserves. We have created a shortage that need not have occurred. This shortage has, in turn, encouraged investment by the pipeline and gas companies in such high-cost alternatives as syngas and liquefied natural gas, which will, in the end, cost the consumer far more than if wellhead prices were deregulated.

The Nation's experience with regulation of wellhead prices demonstrates two fundamental principles. First, it does little good to assure a consumer a low price for a good or service that he cannot buy. Second, whenever the Government requires a producer of a good or service to subsidize the consumer, as it has been doing in gas, it is doomed to failure, for in the end neither producer, nor consumer, nor the Nation as a whole will benefit. And so, today, many consumers are unable to obtain gas and are turning, instead, to oil which, for a number of reasons, is also in short supply.

Coal

The net effect of our policies toward coal has been the same. For a variety of reasons, utilities, the principal consumers of coal in this country, have been switching to residual oil and, in some instances, Number 2 fuel oil, in this way deepening the oil shortages that the country now faces.

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Of all fossil fuels, our Nation is most generously endowed with coal. Present exploitable reserves of coal are measured in centuries rather than decades. Yet, we are discouraging the development of these reserves. The Coal Mine Health and Safety Act of 1969 has reduced productivity and output from underground mines. Various states have restricted surface mining. Perhaps most important, air quality standards are resulting in the widespread conversion by the electric utilities from coal to oil, rather than the installation of stack gas cleaning or other environmental measures that would clean up emissions from the burning of coal.

Because of automatic fuel adjustment clauses in many states, through which fuel price increases are passed on automatically as higher electricity rates, the utilities can, very literally, bid any price they must to obtain the oil they need. Partly for this reason, many traditional customers for oil are finding it difficult to obtain the supplies they need.

Most of the policies that have affected the coal industry adversely can be justified on humanitarian grounds. However, we should, at least, recognize their contribution to the energy crisis. And, in some cases, we may wish to delay their implementation. This is especially true of

Federal, State, and local air quality standards that, perhaps more than anything else, have resulted in the extraordinary increase in demand for oil in the past two years.

Oil

At a time when we should have been intensifying our exploration efforts to find more oil, we have reduced the depletion allowance, imposed price controls on the industry, withdrawn leases for environmental reasons, blocked construction of the Alaskan pipeline, and have set back and delayed development of our offshore and Arctic reserves. We have also discouraged the building of refineries, among other things, because of uncertainties about oil import policies, objections to particular refinery sites, and price controls.

Let me talk at greater length about one of these policy areas -- the impact of price controls on the oil industry. Few people realize that the freeze actually continued on most 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 other products -- Number 2 fuel oil, residual fuel oil, and gasoline -- which were "visible" and, together, accounted for over 70 percent of refinery output in this country. The continuation of a freeze on these products resulted in a number of distortions. For example, because the freeze began in mid-summer, fuel oil prices were frozen at seasonally low levels. This encouraged the production of gasoline at the expense of fuel oil and is one reason for the fuel oil shortage last winter. When, after considerable persuasion, the industry converted from the production of gasoline to fuel oil it was mid-winter and late in the heating season. Now we are faced with a gasoline shortage.

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. The controls are one of the reasons for the problems now faced by the independent marketers and refiners. They have discouraged sales through wholesale and encouraged sales through retail outlets. The Cost of Living Council's rules also require major oil companies to take a loss if they exchange with independent refineries their domestic crude oil for higher priced foreign crude oil. In short, under these rules, the major oil companies have had a dual incentive not to deal with the independent segment of the industry.

Parenthetically, Phase IV controls impact especially hard on the producing and retail segments of the industry, which are dominated by independents. Even though some of the price regulations that have been disadvantageous to the independents have been removed, Phase IV regulations for the industry have aroused opposition and have now been challenged in the courts as arbitrary and capricious.

Hopefully, several deterrents to the growth of the oil industry have been removed by recent actions by the Federal Government. The Government has done away with volumetric quotas on oil imports and created incentives for drilling and new refinery construction. However, other deterrents remain; we have only begun the long and difficult job of rationalizing public policy in energy and creating adequate incentives so that the oil industry meets the demands that are being placed on it.

National Security and Oil Imports

Thusfar, I have discussed some economic and environmental trade-offs of the energy problem. Let me turn now to the security implications of our current oil shortages. The Middle East has been the predominant supplier of oil to Europe and Japan for some time. It is rapidly becoming a major source of U.S. petroleum requirements.

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At present the Middle East possesses 67 percent of the world's known reserves. Three countries -- Iran, Iraq, and Saudi Arabia -- have oil reserves sufficient to allow substantial increases in production above current levels. But Iran has indicated that, on the basis of its presently proven reserves, its output of crude oil will not expand much beyond eight to nine million barrels per day. Iraq poses special problems associated with its nationalization of some Iraqi fields and its political environment. Saudi Arabia holds the largest reserves of oil, about 140 billion barrels or 24 percent of the world's proven reserves. However, whether Saudi Arabia will play the major role in the balance between world oil supply and demand will depend on whether Saudi Arabia does not also limit its output. Recent reports indicate that she might do just that.

If we are to meet anticipated deficits, given no further change in U.S. policy, oil production in the Middle East and North Africa will have to increase from 22 million barrels per day in 1970 to about 40 to 50 million barrels per day in 1980. On the basis of present planning, Saudi Arabia is expected to supply about 75 percent of the expected growth in Middle Eastern oil production through 1980 and Iran another 20 percent. On a global basis, the Middle East will produce 50 percent of the world's oil and

Saudi Arabia and Iran will, together, supply half of this oil by 1980. In other words, the world's oil economy has changed drastically from when the U. S. oil import program was first initiated. We are becoming heavily and, I think, dangerously dependent on Middle Eastern supplies of oil.

Greater reliance on Middle East oil will represent a security problem for the United States for several reasons.

First, all producing countries have shown an increasing tendency to demand higher prices for their oil. Some have threatened withholding supplies to assure that their demands are met.

Second, the Middle East is not trouble-free. War has broken out several times during the past three decades, and supplies from this area have suffered frequent interruptions.

Third, some governments have failed to abide by agreements with the oil companies. They have also suggested the use of their oil resources as a political weapon. The recent oil stoppage by Libya as a political gesture and warnings by Saudi Arabia are examples of what could happen.

Finally, accumulations of foreign exchange reserves could be used by some producing countries for various ventures which are not in the security interests of the United States.

Nor can we assume complacently that we will be able to import products from abroad. We have only to look at the recent actions of the Canadian Government. The Canadians, for reasons that make good sense from their own national self-interest, have announced that they will restrict exports of products to the United States as well as exports of crude oil. They are concerned, correctly, that the United States will dry up available Canadian products and also drive up prices, in this way exporting the shortages that are, very largely, the result of U. S. policies. The Canadian Government has no intention of allowing U. S. shortages to become Canadian shortages as well.

The reluctance to allow the United States to export its difficulties is also shared by some members of the Common Market. Several months ago, at a meeting of the Rocky Mountain Petroleum Economics Institute, an official of the United Kingdom stated that European exports of oil to the United States would be restricted if these exports were to confront European consumers with shortages. Belgium has already begun to restrict exports in order to assure adequate supplies to its citizens. And let us not be surprised if Europe cites as precedent our own restrictions on the exports of soybeans and other foodstuffs in order to avert scarcities and to keep prices down.

To put it bluntly, we must stop kidding ourselves. We must avoid the self-delusion that we can turn to imports to meet major deficits of crude oil and finished products which we, because of our own policies, are unable to produce in the United States. We must stand on our own two feet; we must develop our own industry. This is the only real alternative available to us given our Nation's security interests.

What Must Be Done?

The energy crisis is extraordinarily complex and cannot be treated adequately in the limited time allotted to me today. I do not wish to imply that my discussion, thusfar, has exhausted all of the problems confronting the gas, coal and oil industries. Nor do I wish to imply that a particular change in policy will be a panacea; that all or even most of our problems can be resolved by a single act of Washington. However, I do believe that certain changes would go a long way toward helping to resolve our difficulties.

One of these changes is a greater willingness to pay more than we have for our various energy sources. For too long, now, we have been paying too little for energy in this country. The price of a gallon of gasoline is about one-half that in Europe. Although much of this difference reflects taxes, some of it also reflects the lower return permitted the industry in the United States. This is a major reason why, in recent years, multinational oil firms have been investing heavily in refineries in Europe and in drilling in the Middle East, Africa, Asia, and the North Sea.

There are other policies that we must also change. Let me mention briefly some of them.

-- We need to review our air quality standards to determine whether some of these standards can be relaxed without serious consequences to health and safety in an effort to conserve on fuel over the short term.

-- We need to build deepwater ports to enable the use of very large crude carriers, or "supertankers". These are desirable both on economic and environmental grounds.

-- We need to accelerate off-shore drilling and remove administrative and environmentalist obstacles that have restricted our ability to exploit off-shore oil and gas reserves.

-- We must stop preventing the construction of refineries in many areas in the mistaken belief that, even under modern technology, refineries must seriously pollute the environment.

-- We must begin work immediately on the construction of the Alaskan pipeline and put an end to the seemingly endless litigation that has been spawned to delay and frustrate this project.

-- We must deregulate natural gas, not only to assure the higher price necessary to produce more gas, but to enable the industry to operate free of uncertainties about changes in future FPC policies.

-- We must revise regulatory procedures to discourage the switch from coal to oil by electric utilities and from natural gas to syngas by the gas utilities.

-- We must continue our efforts to avoid undue long-run dependence on Middle Eastern oil by spurring all forms of domestic development.

-- We must actively seek ways to encourage investment by Middle Eastern countries, particularly by Saudi Arabia, in the United States in order to absorb the enormous foreign exchange reserves that will be accumulated.

-- We must have statesmen at the State and local, as well as the Federal level of government, who are willing to tell the public what is necessary and to shun self-serving attacks against refinery sitings, off-shore drilling, and the major oil companies.

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-- Perhaps most important, we must stop deluding ourselves that the energy crisis is a result of anything other than our own mistakes. We must come to the realization that we must do all that we can to remove the policy impediments that have discouraged the development of our energy industries.

For this reason, I am deeply disturbed by the mood that seems to possess our country now, a mood which implies that we need do very little. Increasingly, we hear allegations that the energy crisis is a hoax, that it is a contrivance by the oil industry, and especially the major oil companies, to get higher prices and to drive the independent segment of the industry out of business. In fact, the major oil companies, as well as other segments of the industry, are merely responding to the disincentives that we have created, the various policies that have made it uneconomic to drill for oil and gas and to build refineries.

The belief that there is a massive plot by the industry is the most dangerous of all self-delusions. For some, who would use the industry as a scapegoat, it is an act of deceit. It is reminiscent of the late 1940s and early 1950s when the Red Scare was raised by those who would have us believe that every foreign policy setback was the result of a Communist conspiracy at home. In fact, we have created the energy crisis. We are all responsible. And, when we realize this, and are willing to admit this, then half the battle will be won. "The fault, dear Brutus, lies not in our stars but in ourselves,..."

I am enough of an optimist to believe that we will solve the energy crisis. But we will not do this unless we face reality. And, to resolve this crisis, we must work with the industry, not against it.

We must also shun fanciful notions that nationalization of the industry or the creation of a government owned oil company is the solution to our oil and gas shortages. We must avoid, not embrace, ever greater intrusions by the government into the activities of the industry. For the only fuel that the Government is capable of producing in any volume is paper and this, as most of you know, has an extremely high cost per BTU.

Thank you.

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WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR RELEASE UPON DELIVERY

REMARKS BY DR. WILLIAM A. JOHNSON
ENERGY ADVISER TO
DEPUTY SECRETARY OF THE TREASURY WILLIAM E. SIMON
BEFORE THE
NATIONAL CAPITAL PETROLEUM SECTION
SOCIETY OF PETROLEUM ENGINEERS OF AIME
WASHINGTON, D. C.
SEPTEMBER 18, 1973

Ladies and Gentlemen:

It should be clear to all that our Nation is faced with an energy crisis. What is not universally accepted are the reasons for this crisis and, especially, what must be done to correct it.

At the risk of overgeneralization, let me begin by making several rather sweeping assertions. First, there is both a long and short-term energy problem. The long-term problem involves the possible depletion of our oil and gas reserves with time, as our economy and population grow. But this Nation has abundant untapped energy resources, such as coal, oil shale, and solar and geothermal power. The ultimate solution to the long-term problem is research and development. It is the utilization of energy sources not now economically or environmentally possible or even contemplated under existing technology.

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The conscious decision of past Federal Power Commissions to keep gas prices as low as possible, regardless of the consequences on future exploration, and, worse, to change retroactive prices already approved by the FPC, has discouraged investment in drilling. In the 10 years since 1962 gas well completions have fallen from 5,848 wells to 3,830 wells per year. As a result, we are now withdrawing natural gas from reserves at twice the rate at which we are adding gas to reserves. We have created a shortage that need not have occurred. This shortage has, in turn, encouraged investment by the pipeline and gas companies in such high-cost alternatives as syngas and liquefied natural gas, which will, in the end, cost the consumer far more than if wellhead prices were deregulated.

The Nation's experience with regulation of wellhead prices demonstrates two fundamental principles. First, it does little good to assure a consumer a low price for a good or service that he cannot buy. Second, whenever the Government requires a producer of a good or service to subsidize the consumer, as it has been doing in gas, it is doomed to failure, for in the end neither producer, nor consumer, nor the Nation as a whole will benefit. And so, today, many consumers are unable to obtain gas and are turning, instead, to oil which, for a number of reasons, is also in short supply.

Coal

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Because of automatic fuel adjustment clauses in many states, through which fuel price increases are passed on automatically as higher electricity rates, the utilities can, very literally, bid any price they must to obtain the oil they need. Partly for this reason, many traditional customers for oil are finding it difficult to obtain the supplies they need.

Most of the policies that have affected the coal industry adversely can be justified on humanitarian grounds. However, we should, at least, recognize their contribution to the energy crisis. And, in some cases, we may wish to delay their implementation. This is especially true of

Federal, State, and local air quality standards that, perhaps more than anything else, have resulted in the extraordinary increase in demand for oil in the past two years.

Oil

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Parenthetically, Phase IV controls impact especially hard on the producing and retail segments of the industry, which are dominated by independents. Even though some of the price regulations that have been disadvantageous to the independents have been removed, Phase IV regulations for the industry have aroused opposition and have now been challenged in the courts as arbitrary and capricious.

Hopefully, several deterrents to the growth of the oil industry have been removed by recent actions by the Federal Government. The Government has done away with volumetric quotas on oil imports and created incentives for drilling and new refinery construction. However, other deterrents remain; we have only begun the long and difficult job of rationalizing public policy in energy and creating adequate incentives so that the oil industry meets the demands that are being placed on it.

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At present the Middle East possesses 67 percent of the world's known reserves. Three countries -- Iran, Iraq, and Saudi Arabia -- have oil reserves sufficient to allow substantial increases in production above current levels. But Iran has indicated that, on the basis of its presently proven reserves, its output of crude oil will not expand much beyond eight to nine million barrels per day. Iraq poses special problems associated with its nationalization of some Iraqi fields and its political environment. Saudi Arabia holds the largest reserves of oil, about 140 billion barrels or 24 percent of the world's proven reserves. However, whether Saudi Arabia will play the major role in the balance between world oil supply and demand will depend on whether Saudi Arabia does not also limit its output. Recent reports indicate that she might do just that.

If we are to meet anticipated deficits, given no further change in U.S. policy, oil production in the Middle East and North Africa will have to increase from 22 million barrels per day in 1970 to about 40 to 50 million barrels per day in 1980. On the basis of present planning, Saudi Arabia is expected to supply about 75 percent of the expected growth in Middle Eastern oil production through 1980 and Iran another 20 percent. On a global basis, the Middle East will produce 50 percent of the world's oil and

Saudi Arabia and Iran will, together, supply half of this oil by 1980. In other words, the world's oil economy has changed drastically from when the U. S. oil import program was first initiated. We are becoming heavily and, I think, dangerously dependent on Middle Eastern supplies of oil.

Greater reliance on Middle East oil will represent a security problem for the United States for several reasons.

First, all producing countries have shown an increasing tendency to demand higher prices for their oil. Some have threatened withholding supplies to assure that their demands are met.

Second, the Middle East is not trouble-free. War has broken out several times during the past three decades, and supplies from this area have suffered frequent interruptions.

Third, some governments have failed to abide by agreements with the oil companies. They have also suggested the use of their oil resources as a political weapon. The recent oil stoppage by Libya as a political gesture and warnings by Saudi Arabia are examples of what could happen.

Finally, accumulations of foreign exchange reserves could be used by some producing countries for various ventures which are not in the security interests of the United States.

Nor can we assume complacently that we will be able to import products from abroad. We have only to look at the recent actions of the Canadian Government. The Canadians, for reasons that make good sense from their own national self-interest, have announced that they will restrict exports of products to the United States as well as exports of crude oil. They are concerned, correctly, that the United States will dry up available Canadian products and also drive up prices, in this way exporting the shortages that are, very largely, the result of U. S. policies. The Canadian Government has no intention of allowing U. S. shortages to become Canadian shortages as well.

The reluctance to allow the United States to export its difficulties is also shared by some members of the Common Market. Several months ago, at a meeting of the Rocky Mountain Petroleum Economics Institute, an official of the United Kingdom stated that European exports of oil to the United States would be restricted if these exports were to confront European consumers with shortages. Belgium has already begun to restrict exports in order to assure adequate supplies to its citizens. And let us not be surprised if Europe cites as precedent our own restrictions on the exports of soybeans and other foodstuffs in order to avert scarcities and to keep prices down.

To put it bluntly, we must stop kidding ourselves. We must avoid the self-delusion that we can turn to imports to meet major deficits of crude oil and finished products which we, because of our own policies, are unable to produce in the United States. We must stand on our own two feet; we must develop our own industry. This is the only real alternative available to us given our Nation's security interests.

What Must Be Done?

The energy crisis is extraordinarily complex and cannot be treated adequately in the limited time allotted to me today. I do not wish to imply that my discussion, thusfar, has exhausted all of the problems confronting the gas, coal and oil industries. Nor do I wish to imply that a particular change in policy will be a panacea; that all or even most of our problems can be resolved by a single act of Washington. However, I do believe that certain changes would go a long way toward helping to resolve our difficulties.

One of these changes is a greater willingness to pay more than we have for our various energy sources. For too long, now, we have been paying too little for energy in this country. The price of a gallon of gasoline is about one-half that in Europe. Although much of this difference reflects

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taxes, some of it also reflects the lower return permitted the industry in the United States. This is a major reason why, in recent years, multinational oil firms have been investing heavily in refineries in Europe and in drilling in the Middle East, Africa, Asia, and the North Sea.

There are other policies that we must also change. Let me mention briefly some of them.

-- We need to review our air quality standards to determine whether some of these standards can be relaxed without serious consequences to health and safety in an effort to conserve on fuel over the short term.

-- We need to build deepwater ports to enable the use of very large crude carriers, or "supertankers". These are desirable both on economic and environmental grounds.

-- We need to accelerate off-shore drilling and remove administrative and environmentalist obstacles that have restricted our ability to exploit off-shore oil and gas reserves.

-- We must stop preventing the construction of refineries in many areas in the mistaken belief that, even under modern technology, refineries must seriously pollute the environment.

-- We must begin work immediately on the construction of the Alaskan pipeline and put an end to the seemingly endless litigation that has been spawned to delay and frustrate this project.

-- We must deregulate natural gas, not only to assure the higher price necessary to produce more gas, but to enable the industry to operate free of uncertainties about changes in future FPC policies.

-- We must revise regulatory procedures to discourage the switch from coal to oil by electric utilities and from natural gas to syngas by the gas utilities.

-- We must continue our efforts to avoid undue long-run dependence on Middle Eastern oil by spurring all forms of domestic development.

-- We must actively seek ways to encourage investment by Middle Eastern countries, particularly by Saudi Arabia, in the United States in order to absorb the enormous foreign exchange reserves that will be accumulated.

-- We must have statesmen at the State and local, as well as the Federal level of government, who are willing to tell the public what is necessary and to shun self-serving attacks against refinery sitings, off-shore drilling, and the major oil companies.

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-- Perhaps most important, we must stop deluding ourselves that the energy crisis is a result of anything other than our own mistakes. We must come to the realization that we must do all that we can to remove the policy impediments that have discouraged the development of our energy industries.

For this reason, I am deeply disturbed by the mood that seems to possess our country now, a mood which implies that we need do very little. Increasingly, we hear allegations that the energy crisis is a hoax, that it is a contrivance by the oil industry, and especially the major oil companies, to get higher prices and to drive the independent segment of the industry out of business. In fact, the major oil companies, as well as other segments of the industry, are merely responding to the disincentives that we have created, the various policies that have made it uneconomic to drill for oil and gas and to build refineries.

The belief that there is a massive plot by the industry is the most dangerous of all self-delusions. For some, who would use the industry as a scapegoat, it is an act of deceit. It is reminiscent of the late 1940s and early 1950s when the Red Scare was raised by those who would have us believe that every foreign policy setback was the result of a Communist conspiracy at home. In fact, we have created the energy crisis. We are all responsible. And, when we realize this, and are willing to admit this, then half the battle will be won. "The fault, dear Brutus, lies not in our stars but in ourselves,..."

I am enough of an optimist to believe that we will solve the energy crisis. But we will not do this unless we face reality. And, to resolve this crisis, we must work with the industry, not against it.

We must also shun fanciful notions that nationalization of the industry or the creation of a government owned oil company is the solution to our oil and gas shortages. We must avoid, not embrace, ever greater intrusions by the government into the activities of the industry. For the only fuel that the Government is capable of producing in any volume is paper and this, as most of you know, has an extremely high cost per BTU.

Thank you.

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FOR RELEASE UPON DELIVERY

REMARKS BY DR. WILLIAM A. JOHNSON
ENERGY ADVISER TO
DEPUTY SECRETARY OF THE TREASURY WILLIAM E. SIMON
BEFORE THE
CONFERENCE FOR CORPORATION EXECUTIVES
JOHNS HOPKINS UNIVERSITY
WASHINGTON, D. C.
SEPTEMBER 18, 1973

Ladies and Gentlemen:

I appreciate this opportunity to talk to you about the energy crisis and, in particular, our need to import oil and gas to meet fully our energy needs. In the course of my remarks, I hope to outline the nature of this crisis, the reasons for it, and, especially, what must be done to correct it.

At the risk of overgeneralization, let me begin by making several rather sweeping assertions. First, there is both a long and short-term problem. The long-term problem involves the possible depletion of our oil and gas reserves with time, as our economy and population grow. But this Nation has abundant untapped energy resources, such as coal, oil shale, and solar and geothermal power. The ultimate solution to the long-term problem is research and development. It is the utilization of energy sources not now economically or environmentally possible or even contemplated under existing technology. I am less concerned about the long-term problem, largely because there have been cries of doom many times before and in each case we have been able to survive.

Of greater concern to me is the short-term problem -- the shortages of energy supply relative to demand that can be expected during the next ten years. This short-term problem is largely a fossil fuel problem. Moreover, this problem has nothing to do with depletion of fossil fuel reserves; it has everything to do with our failure to develop these reserves as rapidly or as effectively as possible.

And this leads me to my final and, perhaps, most sweeping generalization: our short-term difficulties with gas, coal, and oil are, very largely, the result of various ill-conceived policies of federal, state, and local governments. For years, we have been sacrificing the long-run interests of the Nation to secure short-run objectives such as unrealistically low prices for consumers and the too rapid application of environmental controls and restrictions. Now, unfortunately, we are paying for these policies.

Natural Gas

Let me begin by presenting a brief overview of some of these policies. First, natural gas. In no segment of the industry have our policies been so wrong or created such damage as in gas. I refer primarily to the regulation of natural gas prices at the wellhead.

The conscious decision of past Federal Power Commissions to keep gas prices as low as possible, regardless of the consequences on future exploration, and, worse, to change retroactively prices already approved, has discouraged investment in drilling. In the ten years since 1962 gas well completions have fallen from 5,848 wells to 3,830 wells per year. As a result, we are now withdrawing natural gas from reserves at twice the rate at which we are adding gas to reserves. We have created a shortage that need not have occurred. This shortage has, in turn, encouraged investment by the pipeline and gas companies in such high-cost alternatives as substitute or synthetic natural gas (SNG) and liquefied natural gas (LNG), which will, in the end, cost the consumer far more than if wellhead prices were deregulated. The expected city gate price of SNG in New York City is about $1.50 per thousand cubic feet; the expected delivered price of LNG from Algeria, $1.10 per thousand cubic feet, and from Russia, $1.40 per thousand cubic feet. Compare these with the current city gate prices of natural gas in New York City of about 55¢, and a deregulated price of around 75¢ to 85¢. It makes little sense to force American consumers to pay the additional price of SNG restricted surface mining. Perhaps most important, air quality standards are resulting in the widespread conversion by the electric utilities from coal to oil, rather than the installation of stack gas cleaning or other environmental measures that would clean up emissions from the burning of coal.

Most of the policies that have affected the coal industry adversely can be justified on humanitarian grounds. However, we should at least recognize their contribution to the energy crisis. And, in some cases, we may wish to delay their implementation. This is especially true of overly stringent federal, state, and local air quality standards that, perhaps more than anything else, have resulted in the extraordinary increase in demand for oil, especially imported oil, in the past two years.

Oil

Let me turn now to the third fossil fuel, oil. At a time when we should have been intensifying our exploration efforts to find more oil, we have reduced the depletion allowance, imposed price controls on the industry, withdrawn leases for environmental reasons, blocked construction of the Alaskan pipeline, and have set back and delayed development of our offshore and Arctic reserves. We have also discouraged the building of refineries, among other things, because of uncertainties about emissions standards and oil import policies, objections to particular refinery sites, and price controls.

Hopefully, several deterrents to the growth of the oil industry have been removed by recent actions by the Federal Government. The government has done away with volumetric quotas on oil imports and created incentives for drilling and new refinery construction. However, other deterrents remain; we have only begun the long and difficult job of rationalizing public policy and creating adequate incentives so that the oil industry meets the extraordinary demands that are being placed on it.

In the short run, however, there is no feasible alternative to greater reliance on imported oil. The Middle East has been the predominant supplier of oil to Europe and Japan for some time. It is also rapidly becoming a major source of U.S. petroleum requirements.

At present the Middle East possesses two-thirds of the world's known reserves. Three countries -- Iran, Iraq, and Saudi Arabia -- have reserves sufficient to allow substantial increases in production above current levels. But Iran has indicated that, on the basis of its presently proven reserves, its output of crude oil will not expand much beyond eight to nine million barrels per day. Iraq poses special problems associated with its nationalization of some Iraqi fields and its unstable political environment. Saudi Arabia holds the largest reserves of oil, about 140 billion barrels or 24 percent of the world's resources. Saudi reserves are equivalent to four times U. S. reserves, including the Alaskan North Slope's ten billion barrels. Thus, Saudi Arabia will probably play the major role in meeting the balance between U.S. oil supply and demand -- that is, if Saudi Arabia will make these supplies available to the United States.

Greater reliance on Middle Eastern oil, while necessary in the short run because of the foolishness of our policies, will pose a security problem for the United States.

First, all producing countries have shown an increasing tendency to demand higher prices for their oil. Some have actually threatened to withhold supplies to assure that their demands are met.

Second, as we all know, the Middle East is not trouble-free. War has broken out several times during the past three decades, and supplies from this area have suffered frequent interruptions.

Third, some governments have threatened long-standing agreements with U.S. oil companies. They have also suggested the use of their oil resources as a political weapon in opposition to U. S. policies toward Israel. The recent oil stoppage by Libya as a political gesture and statements by Saudi Arabia are portents of what could happen.

Finally, accumulations of foreign exchange reserves could be used by some producing countries for various ventures which are not in the security interests of the United States. Perhaps worse, for some countries additional reserves may have little or no use, leading to the decision already made by Kuwait, for example, that a country's wealth might better be left in the ground than in foreign bank accounts.

Is The World Oil Shortage Real?

I am sure that you have heard some people argue that there really is no worldwide shortage of crude oil. These critics point out that known reserves at present exceed 590 billion barrels and that new oil reserves are discovered almost daily. Faced with this type of abundance, they say, a world oil shortage is a myth.

Nothing could be further from the truth. The problem is not one of aggregate reserves, which may well be plentiful. The problem is one of present and future levels of production of the appropriate types of crude oil. Let us take a closer look at some of the difficulties with oil supplies that are disguised by aggregate reserve figures.

In the first place, most oil producing countries are beginning to worry about depletion of their reserves. Whether or not they are right is unimportant. The essential fact is that they are acting as if their reserves will soon be depleted at present or prospective rates of exploitation. Canada, Venezuela, and Kuwait, for instance, are restricting their production for this reason. Throughout the Middle East there is also a concern for prosterity and a desire not to use up oil reserves in one or two generations. As a result, officials in almost every producing country are pressing for control of production and, in many countries, laws or orders restricting output have been proposed or enacted.

In addition, the foreign exchange holdings of some Middle Eastern countries have been growing or are expected to grow at a rate faster than they can be spent. Moreover, these newly acquired foreign exchange reserves are depreciating in value while oil reserves in the ground are increasing in value. A case is almost certainly being made in the councils of the producing countries to defer production so that prices and profits in the future will be even greater than they are now.

We are also told that the strength of the producing countries has been created, by and large, by the U. S. State Department. These critics tell us that, if we would just not talk so much about an energy crisis or worry so much about our supply of oil, that the producers would not realize that there is now a seller's market and that oil prices would rapidly stabilize or even fall.

This is an extremely naive point of view. The leaders of the producing countries are not dummies. We are dealing with men who are graduates of Princeton, Harvard and Yale, and who have hired consultants with long experience in the U. S. and foreign oil industries. To suppose that they can only learn about their strong bargaining position from the U. S. Government is absurd.

What is the situation? Briefly, there are fewer and fewer suppliers of oil and an ever-growing number of buyers. For the rest of this decade, and on into the next, until there is a significant replacement of imported oil by domestic production or oil substitutes, the producers will

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be able to call the tune. And we cannot make this situation go away by refusing to talk about it.

To put it succinctly, the world's oil economy has changed and changed drastically during the last two years. The United States has up to now been the world's largest producer. Middle East production has been less than 2 million barrels per day. Now, U.S. production has leveled off and, some day, if we do not change our mistaken policies, the largest producers may well be Iraq, Iran, and Saudi Arabia. As long as the United States was a potential exporter of oil, it provided a stabilizing influence in the world market for oil. Now that it is a major importer, this stabilizing influence has disappeared. Indeed, because of our middle eastern policies, we have become, if anything, a destabilizing force in the world oil market.

Product Imports

Up to now, I have discussed crude oil imports only. In fact, about half of our oil imports are of petroleum products. Product imports will probably grow rapidly for the next 3 or 4 years or until new refinery capacity comes on stream. The reason why we must increase our product imports is our failure to increase refinery capacity in recent years. We are running our existing refineries at close to peak capacity.

Construction of new capacity has been delayed for a number of reasons. It is now being started, but will take at least three or four years to complete. It may take much longer if we do not clear away all remaining obstacles. Perhaps the most important has been persistent and widespread opposition to the location of new refineries in many communities, particularly on the East Coast.

Will foreign refineries be able to produce the gasoline, heating oil, and residual fuel oil that our economy will need? In the first place, there is a problem of quality. The sulphur levels of heating oil and residual fuel oil produced in the major refining countries of Europe are often higher than levels permitted under current environmental standards. In other words, if we are to purchase the additional petroleum products we need from Europe, we will have to relax the sulphur limits in our clean air standards. Also, European gasoline has a lower octane level than American gasoline. European refineries cannot easily manufacture gasoline to meet U.S. specifications in a short period of time.

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What about the available amounts of foreign petroleum products? Is there sufficient excess capacity in Europe and the Western Hemisphere so that foreign refineries can meet our needs? The Canadians have announced that they will restrict exports of petroleum products as well as crude oil to the United States. They are concerned that the U.S. will dry up available Canadian products and also drive up Canadian prices, in this way exporting the shortages that are, very largely, the result of U.S. policies. Several European countries have the same attitude toward their product exports and at least one, Belgium, has begun to limit its exports in order to protect its own markets.

To put it bluntly, we must stop kidding ourselves. We must avoid the self-delusion that we can turn to imports to meet major deficits of crude oil and finished products which we, because of our policies, are unable to produce in the United States. We must stand on our own two feet; we must develop our own industry. This is the only real alternative available to us.

What Must Be Done?

The energy crisis is extraordinarily complex and cannot be treated adequately in the limited time allotted to me today. I do not wish to imply that my discussion, thusfar, has exhausted all of the energy problems confronting our country and, in particular, all of the problems with gas and oil imports. Nor do I wish to imply that a particular change in policy will be a panacea; that all or even most of our problems can be resolved by a single or a few acts in Washington. However, I do believe that certain changes in policy would go a long way toward helping to resolve our difficulties.

One of these changes is a greater willingness to pay more than we have for our various energy sources. For too long, now, we have been paying too little for energy in this country. The price of a gallon of gasoline is about one-half that in Europe. Although much of this difference reflects taxes, some of it also reflects the lower return permitted the oil industry in the United States. This is a major reason why, in recent years, multinational oil firms have been investing heavily in refineries in Europe and in drilling in the Middle East, Africa, Asia, and the North Sea.

There are other policies that we must also change.

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Let me mention briefly some of them.

-- We need to review our air quality standards to determine whether some of these standards can be relaxed without serious consequences to health and safety in an effort to conserve on fuel over the short term.

-- We need to build deepwater ports to enable the use of very large crude carriers, or "supertankers". These are desirable both on economic and environmental grounds.

-- We need to accelerate off-shore drilling and remove administrative and environmentalist obstacles that have restricted our ability to exploit off-shore oil and gas reserves.

-- We must stop preventing the construction of refineries in many areas in the mistaken belief that, even under modern technology, refineries must seriously pollute the environment.

-- We must begin work immediately on the construction of the Alaskan pipeline and put an end to the seemingly endless litigation that has been spawned to delay and frustrate this project.

-- We must deregulate natural gas, not only to assure the higher price necessary to produce more gas, but to enable the industry to operate free of uncertainties about changes in the future FPC policies and retroactive reductions in FPC-approved prices.

-- We must revise regulatory procedures to discourage the switch from coal to oil by electric utilities and from natural gas to SNG by the gas utilities.

-- We must continue our efforts to avoid undue long-run dependence on Middle Eastern oil by spurring all forms of domestic development.

-- We must actively seek ways to encourage investment by Middle Eastern countries, particularly by Saudi Arabia, in order to absorb the enormous foreign exchange reserves that will be accumulated.

-- Perhaps most important, we must stop deluding ourselves that the energy crisis is a result of anything other than our own mistakes. We must come to the realization that we must do all that we can to remove the policy impediments that have discouraged the development of our energy industries. This is the only realistic alternative to ever greater dependence on imports.

For this reason, I am deeply disturbed by the mood that seems to possess our country now, a mood that implies that we need do very little. Increasingly, we hear allegations that the energy crisis is a hoax, that it is a contrivance

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by the oil industry, and especially the major oil companies, to get higher prices and to drive the independent segment of the industry out of business. In fact, the major oil companies, as well as other segments of the industry, are merely responding to the disincentives that we have created, the various policies that have made it uneconomic to drill for oil and gas and to build refineries.

The belief that there is a massive plot by the industry is the most dangerous of all self-delusions. For some, who would use the industry as a scapegoat, it is an act of deceit. In fact, we have created the energy crisis. We are all responsible. And, when we realize this, and are willing to admit this, then half the battle will be won. "The fault, dear Brutus, lies not in our stars but in ourselves,..."

I am enough of an optimist to believe that we will avoid becoming permanently and hopelessly dependent on foreign sources of oil. But we will not do this unless we face reality. And, to avoid this dependence, we must work with the industry, not against it.

Thank you.

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FOR IMMEDIATE RELEASE September 5, 1973

SECRETARY SHULTZ ANNOUNCES TRAVEL PLANS
AS CHAIRMAN OF EAST-WEST TRADE POLICY GROUP

Details of planned official visits by United States officials to discuss progress in developing East-West trade relations were announced by Secretary George P. Shultz in his capacity as chairman of the East-West Trade Policy Committee.

Secretary of Commerce Frederick B. Dent, Assistant Secretary of State Willis C. Armstrong and other officials will visit Hungary from September 23 to 25 and Poland from September 25 to September 28.

Secretary Shultz, Secretary Dent, Under Secretary of State for Economic Affairs, William J. Casey, and other officials will visit the Soviet Union from September 28 to October 4 and Yugoslavia from October 5 to October 8.

Secretary Shultz and Under Secretary Casey will fly to the Soviet Union from the annual meetings of the International Monetary Fund and World Bank in Nairobi, Kenya, during the last week in September. The U.S. officials will stop overnight in Bonn, Germany, on October 4. Discussions with German officials will take place on the morning of October 5, and Secretary Shultz will address the German Society for Foreign Affairs at mid-day.

The officials are expected to return to Washington on Monday, October 8.

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FOR RELEASE ON DELIVERY

STATEMENT OF JOHN M. HENNESSY
ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS
U. S. TREASURY DEPARTMENT
before
THE SENATE FINANCE COMMITTEE
Concerning the Proposed Export Development Credit Fund
on
September 6, 1973

Mr. Chairman, and Members of the Committee:

I welcome this opportunity to appear before the Senate Finance Committee in support of legislation for an Export Development Credit Fund, as proposed in Senate Bill S. 2335. The Department of the Treasury supports the basic concept of the proposed Fund, but we would like to suggest some modification in its operational aspects, as I will outline.

In the bill as presented, both in the House and Senate versions, the proposed Fund has been justified in terms of serving two major objectives of United States foreign economic policy: (1) it will serve as an instrument for expanding U.S. exports into new markets in the low income countries, and (2) it will be a means of contributing to the economic development of these countries. In addition to these two objectives, I would add a third of growing importance to us, that is, the Fund will aid in the development of new and continuing sources of raw materials and fuels for the American economy. While the Fund is not designed to contribute directly to development of new sources of raw materials, it will indirectly do so through provision of needed transportation, communications and power equipment to countries which have extensive natural resources to bring to the world market. The United States currently purchases 28 percent of its imports from these low income countries, a majority of which are raw materials, and the prospects are good for further increases. The development of export markets and additional sources of raw materials go hand in glove, for as we buy more from them, they have the effective demand to buy more from us.

In stimulating greater exports to the low income countries the United States must have reasonable assurance that we will be repaid and that these new export markets will be sustained. I will address briefly each of two questions: the first on the market development potential in the low income countries, and the second on the prospects for repayment.

Market Development Potential

What is the market development potential in the low income countries? Our analysis of U.S. trade with the lowest income countries shows that the U.S. market share in these countries is relatively small and has been declining during recent years. Our export performance has been particularly weak relative to our major competitors. Part of this may be explained by distance and traditional relationships, but it must be recognized that a large proportion of the imports of these countries are financed by official foreign credits, and U.S. credits to these countries have been growing much more slowly than those of our competitors.

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The question arises, of course, as to whether these countries have the absorptive capacity to import goods and services of the magnitude envisioned under the Fund. An initial lending volume of $675 million annually would amount to about 2 percent of the total 1972 merchandise imports of the 67 countries involved. Another standard, based on estimated total annual investment of $47 billion (18% of GNP of $260 billion) in these countries, exclusive of communist nations, indicates the annual flow would represent a little more than one percent of investment in 1972. Based on these criteria, it would certainly seem possible for these countries to increase their imports by the $675 million which would be added through the Fund.

In determining which products would be provided assistance under the Fund, careful consideration would be given to those areas which offer the best prospects for expanding markets for U.S. products. Presently, U.S. exports to the twelve largest purchasers in the group in terms of broad categories can be broken down as follows: 31% agricultural goods, 28% in raw and intermediate materials, and 41% in manufactured machinery and equipment. However, it should be clarified that the proposed EDCF would not finance agricultural products, since there are already adequate programs to handle these exports. We <u>can</u> export more manufactured products to the low income countries if we offer terms that make sense in view of their own economic situation; we believe that the proposed Fund would help us to do that.

Prospects for Repayment

Turning now to the second question, what are the prospects that the recipients of these proposed credits will be able to repay the United States?

The combined external debt outstanding of the 67 developing countries with GNP's of less than $375 per capita amounted to $39 billion as of December 31, 1970. Nearly $20 billion of this amount was concentrated in four countries (South Korea, Indonesia, India, and Pakistan). The remaining 50 percent of the outstanding debt was distributed among 63 countries.

The concentration of a considerable portion of the total LDC debt in a relatively small number of countries does not necessarily mean that these few countries will be unable to meet their obligations nor that the remaining LDC's will be free of debt problems. The immediate cause of LDC debt problems, where they in fact exist, is due to the inadequate ability of the economy to generate sufficient foreign exchange to service the debt obligations. The reasons for this inadequacy vary but may be attributable to unsophisticated cost benefit analysis of projects, ineffective debt management policies, insufficient efforts to promote exports, or alternatively, may be due to factors entirely beyond the control of the LDC's themselves, such as deteriorating terms of trade or declining aid flows.

It is generally in the interest of the United States to finance exports to developing countries when there is a reasonable assurance of repayment in accordance with agreed schedules. This, of course, poses the

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question of how one obtains such reasonable assurances. No single indicator exists of the ability of countries to service their debt obligations although reference is frequently made of the debt service ratio which compares a country's debt service with its earnings from merchandise exports or from exports of goods and services. The fact is that the debt service ratio may be quite misleading. A country with a low debt service ratio may have a limited capacity to absorb additional debt if it pursues unsound financial and economic policies, while a country with a high debt service ratio may well be able to take on additional obligations if it is actively and successfully attempting to promote exports, pursuing sound internal policies, and promoting a favorable investment climate. Mexico provides us with an outstanding example of a country in the latter situation. In 1966 Mexico's debt service obligations absorbed 54 percent of its current account earnings, a ratio considerably higher than those typically found in countries having difficulties meeting their obligations. Brazil is another example. After rescheduling its debts in 1961 and again in 1964, Brazil has been following sound financial policies, attracting high inflows of foreign private and public investments, and is today considered a sound credit risk.

Thus, with the terms proposed in the Senate bill and with careful attention to the nature and uses of the commodities financed under the proposed Fund, we believe that the low income countries will be able to offer us reasonable assurance of repayments. It is worth noting that

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the developing countries are currently paying out about $7 billion annually to service outstanding external debt. Of this total the United States is receiving about a third, or about $2 billion, per year. The United States is currently receiving annual repayments on AID's development loans alone of $300 million. This will rise to $600 million in the next decade.

Suggested Modifications

I would like to turn now to some suggestions for modifying the provisions regarding the proposed Fund in order to make its operations more consistent with sound fiscal practices.

First, in regard to its budgetary impact (Section 801 (d)), we note that the bill treats the Fund in the same manner as the Export-Import Bank operations, which excludes it from the budget. We recommend that the bill be amended to provide for the inclusion of its costs in the budget totals, and also for the financing of the Fund through regular Treasury securities.

Second, we recommend elimination of the language in Section 801 (b)), which authorizes the refinancing of U.S. export credits. This authority would conflict with the use of this Fund for market development purposes.

Third, we want to ensure that the intent of the bill is to subject both the amount of the borrowing and the use of the reflows for interest subsidies to the annual appropriations process.

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Conclusion

In brief, I would like to add the support of the Treasury Department to the proposed Export Development Credit Fund. With the few modifications I have suggested, it is our view that the proposed Fund makes good economic sense both for the United States and for the low income countries.

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

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September 6, 1973

MEMORANDUM FOR THE PRESS:

The attached correspondence and draft of legislation establishing a District of Columbia Development Bank are for immediate release.

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THE SECRETARY OF THE TREASURY
WASHINGTON 20220

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SEP 6 1973

Dear Mr. President:

There is transmitted herewith a draft of a proposed bill, "To establish a District of Columbia Development Bank to mobilize the capital and the expertise of the private community to provide for an organized approach to the problems of economic development in the District of Columbia."

The President's Budget for fiscal year 1972 stated that:

> In order to improve economic and social conditions in the Nation's Capital, legislation will be proposed to establish a District of Columbia development bank. The bank will draw primarily on private capital, combined with limited Treasury Department participation, to meet some of the economic problems of the District.

The recommendation for such legislation was reiterated by the President in his message of April 7, 1971, relating to the District of Columbia. The draft bill is designed to implement that recommendation and differs from legislation submitted to the 92nd Congress only in that language limiting the bank's assistance solely to projects located within the District of Columbia has been strengthened.

The draft bill would establish a District of Columbia Development Bank to assist economic development projects in that community that have difficulty in obtaining necessary financial resources or other support from customary private or Governmental sources. The bank, which would not be an agency of the United States, would have an eleven man board of directors including three officers or employees of the United States or the District of Columbia, the Commissioner of the District of Columbia, and the Chairman of the City Council and six directors elected by the shareholders of the bank.

It would be authorized to purchase, service or sell any debt obligation or equity instrument, and to guarantee any debt obligation issued to finance projects deemed by the bank to be consistent with its purpose. The bank would also be authorized to provide technical assistance and training required to accomplish comprehensive development projects and programs. Loans and equity investments by the bank would be made in accordance with sound and prudent development banking principles, and would be made with the objective of assuring a reasonable return on the funds invested, consistent with the achievement of economic development goals.

The bank's capital would consist of privately subscribed common stock, one half of which amount would be paid into the bank at the time of subscription with the remainder to be paid within two years after the subscription. The bank would be authorized to issue and have outstanding obligations in amounts not to exceed fifteen times the amount of its subscribed capital and surplus. In addition, the bank would be authorized to issue up to $10 million of obligations to the Secretary of the Treasury and the Secretary would be authorized to purchase such obligations in amounts specified in appropriation acts. No obligations could be purchased by the Secretary until not less than two million dollars in capital of the bank have been paid in. Interest on such obligations would be paid into the Treasury by the bank at a rate consistent with Office of Management and Budget Circular No. A-70.

No dividends could be declared or paid if the bank had outstanding borrowings from the Treasury or if the declaration or payment of dividends would impair the capital account of the bank. Net earnings and dividends of the bank would be subject to local, State, and Federal taxes.

In carrying out its functions the bank could assist projects which are innovative, which involve special risk situations, which are of unusually large scale, or which would be feasible only if financed collectively or fully committed in advance. All projects receiving bank assistance would be designed to enhance existing or future development plans of the District and would be designed to increase the employment and economic opportunities of District residents.

The Department believes that economic development within the District of Columbia would be furthered by focusing private resources through the District of Columbia Development Bank. The bank would be able to combine the capital and expertise of the private community to provide for an organized approach to the problems of economic development in the District.

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

The Department has been advised by the Office of Management and Budget that there is no objection to the submission of this legislation to the Congress and that its enactment would be in accord with the program of the President.

Sincerely yours,

Geo P. Shultz

George P. Shultz

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

Enclosure

A BILL

To establish a District of Columbia Development Bank to mobilize the capital and the expertise of the private community to provide for an organized approach to the problems of economic development in the District of Columbia.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "District of Columbia Development Bank Act of 1973".

FINDINGS AND DECLARATION OF PURPOSE

Sec. 2. (a) The Congress finds that it is essential to create a financial institution to focus private resources on the problems of economic development in the District of Columbia because:

(1) substantial economic development of many components of the community is essential to the well-being of the citizens of the District of Columbia;

(2) such economic development will require a concerted effort by all segments of the community, including the private financial institutions;

(3) many worthwhile community development projects have not been undertaken successfully in the District because of the lack of financial and technical skills or initial capital by those citizens interested in such projects;

(4) no institution or organization currently exists to mobilize effectively the available expertise and capital of the District for such development efforts; and

(5) establishment of the proposed new institution would recognize the problems incurred by the District of Columbia due to the unique economic role of the Federal Government in the city.

(b) It is the intent of the Congress that this institution concentrate on assisting economic development projects that have difficulty in obtaining necessary financial resources or other support from customary private or Governmental sources. Such projects should include innovative or other uncommon ventures, special risk situations, projects of unusually large scale and projects that would otherwise be feasible only if financed collectively or fully committed in advance.

(c) It is the further intent of the Congress that in those projects where financing is already available, this institution should help assure necessary technical resources and effective coordination with other efforts to promote economic development solely within the District of Columbia. Projects should enhance existing or future development plans of the District and should be designed to increase the employment and economic opportunities of District residents.

(d) In the light of these findings and to accomplish these purposes, the Congress hereby declares that it is necessary to enact the provisions hereinafter set forth to establish a new financial institution.

CREATION OF BANK

Sec. 3. There is hereby created a body corporate to be known as the District of Columbia Development Bank, which shall have succession until dissolved by Act of Congress and which shall not be an agency of the United States Government. The Bank shall maintain such offices as may be necessary or appropriate in the conduct of its business, and shall be exempt from section 6 of the Act of March 4, 1933, 47 Stat. 1567 (D.C. Code, sec. 26-107).

BOARD OF DIRECTORS

Sec. 4. (a) The Bank shall have a board of directors which shall consist of eleven persons, including the Commissioner of the District of Columbia, the Chairman of the District of Columbia Council, three officers or employees of the United States or the District of Columbia who shall be designated by the President, and six directors who shall each be elected by the shareholders of the Bank. The elected members of the board shall serve for a term ending upon election and qualification of their successors at the next annual meeting of the common stockholders of the Bank.

(b) Each director who is an officer of the United States or officer of the District of Columbia may designate an alternate who shall be an officer or employee of the United States or of the District of Columbia, respectively, to serve as director in his absence. Any elective seat on the board which becomes vacant after the annual election of the directors shall be filled by the board, but only for the unexpired portion of the term. Any director who is full-time officer or employee of the United States or of the District of Columbia shall not receive compensation for his service as director.

(c) The board of directors shall meet at the call of its chairman, who shall require it to meet at least once each month.

(d) One director of the Bank shall be elected by the board from among the elected members to serve as chairman of the board of directors. The President of the bank shall be appointed by the board of directors, and shall serve at the pleasure of the board. Subject to the general policies of the board, the management of the Bank shall be vested in the President and he shall be the chief executive officer of the Bank.

INITIAL BOARD OF DIRECTORS

Sec. 5. In addition to the five Federal and District of Columbia officials the six remaining directors shall be initially appointed by the President, by and with the advice and consent of the Senate, for an initial term ending on the date the directors elected at the first meeting of the shareholders shall have qualified and assumed office. The chairman of the initial board shall be elected by and from among the members of the initial board.

FINANCIAL AND TECHNICAL ASSISTANCE

Sec. 6. (a) The Bank is authorized, subject to the provisions of this section, to make commitments to purchase and to purchase, service, or sell, or to guarantee in whole or in part, any debt obligation or participation therein, issued by an obligor to finance any project or activity within the District of Columbia deemed by the Bank to be consistent with the purpose of this Act, and to make commitments to purchase and to purchase, service, or sell, any equity instrument or participation therein, issued by an issuer to finance any project or

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activity deemed by the Bank to be consistent with the purpose of this Act.

(b) The bank is further authorized to provide technical assistance and training in the preparation and implementation of comprehensive development projects and programs, including the formulation of specific project proposals.

(c) Loans and equity investments made by the Bank shall be in accordance with sound and prudent development banking principles.

(d) The Bank shall develop criteria and procedures to assure that projects assisted by it are consistent with existing or future plans for the economic development of the District of Columbia, and take into account Federal and District programs which utilize Federal assistance for the development of like or similar categories of projects.

(e) The Bank shall be operated on a businesslike basis, with the objective of assuring a reasonable return on the funds invested, consistent with achievement of the economic development goals. The bank is authorized to charge and collect such fees as it deems reasonable, including premiums for the guarantee or insurance of mortgages and loans made pursuant to this section. Any loan or guarantee made pursuant to this section may be in an amount not exceeding the total cost of the project to be financed with the loan or guarantee; and shall be secured in such manner and be repaid in such period, as may be determined by the Bank; and shall bear interest at a rate determined by the Bank.

(f) Assistance authorized under this section shall not be extended (1) for projects outside of the District of Columbia, (2) for working capital, or (3) to assist establishments relocating from one area to another. The limitation set forth in clause (3) shall not be construed to prohibit assistance for the expansion of an existing business entity through the establishment of a new branch, affiliate, or subsidiary of such entity if the Bank finds that the establishment of such branch, affiliate, or subsidiary will not result in an increase in unemployment in the area of original location or in any other area where such entity conducts business operations, unless the Bank has reason to believe that such branch, affiliate, or subsidiary is being established with the intention of closing down the operations of the existing business entity in the area of its original location or in any other area where it conducts such operations.

CAPITAL AND SURPLUS

Sec. 7. (a) The Bank shall have common stock, having a par value of not less than $100 per share. Such common stock may be subscribed for by any private individual, partnership, corporation, foundation, society, association, or other organization, profit or nonprofit. Not less than one-half of the amount subscribed for by any purchaser shall be paid into the Bank at the time of subscription; not less than one-half of the remaining amount of each subscription shall be paid into the Bank not later than one year after the time of subscription; and the entire amount of each subscription shall be paid into the Bank not later than two years after the time of subscription. Any national bank or bank chartered by the District of Columbia or any other bank whose deposits are insured by the Federal Deposit Insurance Corporation shall be authorized to purchase common stock issued by the Bank pursuant to this section notwithstanding the provisions of any other statute. Such purchases shall be limited to

10 percent of the purchasing bank's capital and surplus. Any Federal savings and loan association and any insured institution of the Federal Savings and Loan Insurance Corporation as to which an Act of Congress is competent to confer such authority is hereby authorized without regard to any other provision of law to invest in stock of the Bank and in obligations or securities of or issued by the Bank or having the benefit of any guaranty or insurance by the Bank or of any commitment or agreement therefor, but any such investment may be made only to such extent, and shall be subject to such conditions, restrictions, and prohibitions, as the Federal Home Loan Bank Board may prescribe. Any insurance or public utility company licensed by the District of Columbia is hereby authorized without regard to any other provision of law to invest in stock of the Bank and in obligations or securities of or issued by the Bank or having the benefit of any guaranty or insurance by the Bank or of any commitment or agreement therefor, but the Superintendent of Insurance of the District of Columbia (in the case of insurance companies) and the Public Service Commission of the District of Columbia (in the case of public utility companies) may by regulation or order prescribe limitations upon such investments.

(b) All moneys received by the Bank in return for its common stock shall be accumulated in a capital account. All net earnings from the operations of the Bank shall annually be transferred to a surplus account. Such dividends as may be declared, but not to exceed 6 percent per annum on the amount of paid-in capital, shall be paid by the Bank to the holders of its common stock and shall be charged against the surplus account and shall be payable out of the net earnings of the Bank, for that year. No dividends shall be declared or paid by the Bank unless the Bank has no outstanding borrowings from the Treasury at the time of such dividend declaration or payment, and the declaration or payment of such dividends will in no way impair the capital account of the Bank.

(c) Net earnings and dividends of the Bank shall be subject to applicable local, State, and Federal taxes.

OBLIGATIONS OF THE BANK

Sec. 8. (a) The Bank is authorized, with the approval of the Secretary of the Treasury, to issue and have outstanding obligations having such maturities and bearing such rate or rates of interest as may be determined by the Bank. Such obligations may be redeemable at the option of the Bank before maturity in such manner as may be stipulated therein. The aggregate amount of obligations of the Bank outstanding at any one time under this subsection shall not exceed fifteen times the amount of subscribed capital and surplus of the Bank. The Bank is authorized to purchase in the open market any of its outstanding obligations. Interest payments of the Bank shall be subject to applicable local, State, and Federal taxes.

(b) In addition to the obligations of the Bank authorized to be outstanding in subsection (a) of this section, the Bank is authorized to issue obligations to the Secretary of the Treasury and the Secretary is authorized to purchase such obligations in amounts specified in appropriation acts: <u>Provided</u>, that no obligations shall be purchased by the Secretary until not less than two million dollars in capital of the Bank has been paid in: <u>Provided further</u>, that such purchases outstanding shall not exceed the lesser of twice the amount of paid in capital or ten million dollars. Such obligations shall bear interest at a rate determined by the Secretary of the Treasury taking into consideration the current average market yield on outstanding obligations of the Bank with remaining periods to maturity comparable to the average maturities of such obligations issued to the Secretary, but shall not be less than a rate determined by the Secretary of the Treasury taking into consideration the current average market yield on outstanding marketable obligations of the U.S. with remaining periods to maturity comparable to the average maturities of such obligations. There is authorized to be appropriated for use of the Secretary of the Treasury not to exceed ten million dollars for purchase of obligations issued to him pursuant to this subsection. Such appropriations may remain available without fiscal year limitation.

(c) Activities of the Bank shall be subject to audit by the General Accounting Office during such periods as there are outstanding obligations issued by the Bank to the Secretary of the Treasury under subsection (b) of this section.

Sec. 9. The Bank shall have power --

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

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

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

(d) to conduct its business, carry on its operations, have offices, and exercise its powers in the District of Columbia and other States as necessary to carry out the purposes of this Act;

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

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

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

(h) to appoint such officers, attorneys, employees, and agents as may be required, to determine their qualifications, to define their duties, to fix their salaries, require bonds for them and fix the penalty thereof; and

(i) to enter into contracts, to execute instruments, to incur liabilities, and to do all things as are necessary or incidental to the

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proper management of its affairs and the proper conduct of its business.

AUDIT OF FINANCIAL TRANSACTIONS

Sec. 10. The financial transactions of the Bank shall be audited annually by an independent auditor. Such audit shall be conducted in accordance with generally accepted auditing standards by independent certified public accountants who are certified by the District of Columbia Board of Accountancy. The audit shall be conducted at the place or places where the accounts are normally kept.

AUDIT REPORT TO CONGRESS

Sec. 11. A report of each such annual audit shall be transmitted by the Bank to the President and to the Congress not later than six months following the close of the period audited. The report shall include the audit and a statement (showing intercorporate relations) of assets and liabilities, capital and surplus or deficit; a statement of surplus or deficit analysis; a statement of income and expenses; a statement of sources and application of funds; and such comments and information as may be deemed necessary to keep Congress and the President informed of the operations and financial condition of the Bank.

DEFINITIONS

Sec. 12. As used in this Act--

(a) The term "Bank" means the District of Columbia Development Bank created by section 3 of this Act.

(b) The term "obligation" means any bond, note, debenture, or other instrument evidencing debt.

SEPARABILITY

Sec. 13. If any provision of the Act or the application thereof to any person or circumstance, is held invalid, the validity of the remainder of the Act, and the application of such provisions to other persons or circumstances, shall not be affected.

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FOR IMMEDIATE RELEASE September 6,1973

ENVIRONMENTAL FINANCING AUTHORITY

The Board of Directors of the Environmental Financing Authority has held its organizational meeting under the chairmanship of William E. Simon, Deputy Secretary of the Treasury.

The Authority was set up by Congress under the Federal Water Pollution Control Act as amended last year. The law authorizes the Federal Government to pay 75 percent of the costs of construction of sewage waste treatment works approved by the Environmental Protection Agency. The responsible state or local body meets the remainder of the costs. In cases where the local agency is unable to obtain financing for its share in the bond market on reasonable terms, the Authority is empowered to purchase the local obligations at a rate of interest to be determined by the Secretary of the Treasury. There are presently no financing requests before the board.

The Authority will work in concert with EPA, which will have the responsibility for receiving applications for financing, certifying potential borrowers, and guaranteeing payment of their

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obligations when issued to the Authority. The regulations for the implementation of the program are being formulated by EPA in conjunction with the Authority.

The Board of Directors of the Authority are Deputy Secretary Simon, Chairman by designation of the Secretary of the Treasury, and four officers appointed by the President, namely, the Administrator of the Environmental Protection Agency; the Under Secretary of the Treasury for Monetary Affairs; the General Counsel of the Treasury; and the Under Secretary of the Department of Housing and Urban Development.

The following persons, all officials of the Treasury Department, have been designated as officers of the Authority: President, Paul A. Volcker, Under Secretary for Monetary Affairs; Senior Vice President, Jack F. Bennett, Deputy Under Secretary for Monetary Affairs; Vice President and Secretary, Edward M. Roob, Special Assistant to the Secretary for Debt Management; Treasurer, John K. Carlock, Fiscal Assistant Secretary; and General Counsel, Edward C. Schmults, General Counsel.

The organization meeting was held on August 31.

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FOR IMMEDIATE RELEASE September 7, 1973

TREASURY ANNOUNCES CALCIUM PANTOTHENATE FROM JAPAN IS BEING SOLD AT LESS THAN FAIR VALUE

Assistant Secretary of the Treasury Edward L. Morgan announced today that calcium pantothenate from Japan is being, or is likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended. Calcium pantothenate is a member of the B-complex family of vitamins and is produced in both U.S.P. and feed grades. The U.S.P. grade is sold for human comsumption in the form of multi-vitamin tablets, and the feed grade is used as a food supplement for swine and poultry. Notice of the determination will be published in the Federal Register of September 10, 1973.

The case will now be referred to the Tariff Commission for a determination as to whether an American industry is being, or is likely to be, injured. In the event of an affirmative determination, dumping duties will be assessed on all entries of calcium pantothenate from Japan which have not been appraised and on which dumping margins exist.

A notice of "Withholding of Appraisement" was issued on June 8, 1973, which stated that there was reasonable cause to believe or suspect that there were sales at less than fair value. Pursuant to this notice, interested persons were afforded the opportunity to present oral and written views prior to the final determination in this case.

Calcium pantothenate produced and sold by Fuji Chemical Industries, Ltd. of Tokyo, Japan, is excluded from this action, since 100 percent of its export sales during the period under consideration were examined, and no sales by Fuji were found to be at less than fair value, nor is there any likelihood they will be at less than fair value.

During the period of January 1972 through June 1973, imports of calcium pantothenate from Japan were valued at approximately $1.2 million.

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NEWS
[WA]SHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR IMMEDIATE RELEASE September 7, 1973

ROBERT J. PATRICK, JR., APPOINTED
TO INTERNATIONAL TAX COUNSEL POST

Secretary of the Treasury George P. Shultz today announced the appointment of Robert J. Patrick, Jr., as International Tax Counsel.

Mr. Patrick, 39, had been Deputy International Tax Counsel since establishment of that position in April 1971. He joined Treasury in September 1969 as Deputy Special Assistant for International Tax Affairs and Associate Tax Legislative Counsel.

As International Tax Counsel, Mr. Patrick will be principal legal advisor to Assistant Secretary for Tax Policy Frederic W. Hickman in the formulation of policy, legislation, and regulations on international tax matters, including the taxation of foreign source income of U.S. taxpayers, the taxation of foreigners receiving income from U.S. sources, and the prevention of international tax evasion.

Mr. Patrick and his staff comprise the Office of the International Tax Counsel, one of four major units under the Assistant Secretary for Tax Policy. The other units are the Office of the Tax Legislative Counsel, which has corresponding responsibilities for domestic tax matters; the Office of Tax Analysis, and the Office of Industrial Economics.

Mr. Patrick will also share responsibility with Nathan N. Gordon, Deputy to the Assistant Secretary for Tax Policy, in connection with international tax treaty matters.

A native of San Francisco, Mr. Patrick attended Stanford University, receiving his B.A. degree with Great Distinction in 1956 and his LL.B in 1959. While at the university he was an associate editor of the Stanford Law Review. He earned his Master of International Affairs degree from Columbia University in 1960.

From 1960 until joining Treasury, Mr. Patrick was associated with a New York law firm, Cleary, Gottlieb, Steen & Hamilton. He is married to the former Janet Cline of San Francisco. They have three sons and reside in Garrett Park, Maryland.

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FOR IMMEDIATE RELEASE September 10, 1973

URSULA FARRELL STARTS YEAR
AS TREASURY'S WHITE HOUSE FELLOW

Ursula Farrell of New Jersey has been named the Treasury Department's White House Fellow for the year beginning September 4 working in the Office of the Secretary with assignments primarily in the field of international affairs.

Ms. Farrell, who started as an instructor with the IBM Corporation in New York in 1966 in their technical teaching and systems design program, progressed to their sales staff, specializing in data processing equipment for banks. Later, she became IBM's account executive for the Chemical Bank before beginning her fellowship at Treasury. She received numerous awards from that company and was instrumental in organizing the first computer training program in the Bahamas for indigenous workers.

Born in Newark, N.J., February 5, 1943, Ms. Farrell graduated summa cum laude with a bachelor of arts degree in mathematics and Spanish from Upsala College, East Orange, N.J., in 1965. She was salutatorian of her class and elected to Phi Beta Kappa.

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In 1966, she married Warren Farrell of Waldwick, N.J. She received her master of arts in teaching as an Alfred P. Sloan Fellow at Harvard University Graduate School of Arts and Science.

Ms. Farrell, one of 18 White House Fellows working in Washington in Federal Departments and agencies this year, is an active member of the National Organization for Women.

Her husband, who is finishing his doctorate at New York University, teaches sexual politics at American University and Georgetown University in Washington.

Ms. Farrell is the daughter of Mrs. Clara Otte of Maplewood, N.J., and the late Henry Otte. During her year at Treasury she will work principally in the international area, focusing on multi-national companies and East-West trade.

The Farrells reside in the Crystal City section of Arlington, Va. They have no children.

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FOR RELEASE UPON DELIVERY

REMARKS BY THE HONORABLE JOHN M. PORGES
U.S. EXECUTIVE DIRECTOR OF THE
INTER-AMERICAN DEVELOPMENT BANK, AT THE CENTER
FOR LATIN AMERICAN STUDIES, UNIVERSITY OF FLORIDA
AT GAINESVILLE, WEDNESDAY, SEPTEMBER 12, 1973

I am very happy to be back in Florida again and in Gainesville in my new capacity as the U.S. Executive Director of the Inter-American Development Bank. My ongoing relationship with Latin America began here in 1947-49 when I was a member of the faculty of the University of Florida.

In the years since then, Florida has become increasingly important in carrying on the day-by-day trade and commerce which form the backdrop of our relations with Latin America. Increasingly Florida is the home of the American multinational corporation operating in Latin America to the benefit of both the United States and Latin America. The University of Florida maintains its fine department of Latin American studies. And the distinguished Florida Congressional delegation in Washington continues to provide leadership in the U.S. Congress on matters relating to Latin American affairs. In this connection members of the Florida Congressional delegation hold important posts on the key Congressional committees dealing with U.S.-Latin American relations.

As we look south at Latin America, we see a vast continent buffeted by the forces of political, economic and social change. These forces are not unique to Latin America -- rather they are paralleled in all developing areas of the world.

In turn, the international economic order of the world has been in unusual ferment in the 1970's and the changes that have been and are

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being wrought in the international economic system will have profound implications not only for our own economy but also for our future relations with Latin America.

Clearly President Nixon's dramatic announcement of August 15, 1971 gave public recognition to the new economic situation in the world. Implicit in this announcement was the recognition that the United States, while remaining a big, powerful, and rich economy, no longer was the only country in this position. This announcement in turn pinpointed the urgent need to examine the existing monetary rules, trade rules and aid arrangements towards the end of adjusting these to the new realities of the 1970s. This process has been difficult and has required difficult adjustments in our domestic economy as well as in the international economy.

The agenda before the United States remains full. Important trade talks at the Ministerial level are now opening in Tokyo and Secretary Shultz will lead the U.S. Delegation to these talks. Shortly thereafter, Nairobi will be the scene of the International Monetary Fund's and World Bank's annual meeting, which should move forward the extremely important and delicate effort to construct a new and viable international monetary system.

The Nairobi meeting will also consider the major concern of promoting the economic development of the developing world, and I will return to this subject in greater detail in a few minutes.

These international meetings have a highly important domestic counterpart. New authorizing legislation is needed from the U.S. Congress

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to allow our negotiators to conduct meaningful trade talks in the years ahead. A major trade bill is now being considered by the House Ways and Means Committee and the Administration is eager to secure prompt passage of its legislative proposal. Changes in the par value of the dollar automatically require Congressional authorization under existing legislation and clearly the funding of our bilateral and multilateral aid programs also require authorization and appropriation of the U.S. Congress. Major funding bills towards this end will be before the Congress this fall.

These funding bills are designed to provide operating monies for the three key multilateral institutions working in the aid field, including the International Bank for Reconstruction and Development (commonly known as the World Bank), the Inter-American Development Bank and the Asian Development Bank. The activities of these institutions on which little public attention has been focused are rather closely coordinated with our bilateral assistance program.

Secretary Shultz has recently made the following statement about these international financial institutions:

"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 towards global cooperation, it is essential that the United States maintain its fair share of 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 shared responsibility and leadership."

I would like to emphasize the point the Secretary made regarding shared responsibility and shared leadership. In these multilateral development institutions we have been joining with other nations in providing the capital and expertise which will assist the economic development of the poorer nations of the world and better integrate these nations into the mainstream of the international economic system. Our financial contribution to these institutions is carefully determined and in these negotiations cognizance is given to the changing economic realities. For example, developed nations such as Japan and West Germany, which have experienced a more rapid economic growth than the United States over the past decade, are now carrying a heavier financial responsibility -- as they should. In turn, in percentage terms, the U.S. financial share of the total package contribution has been reduced.

In looking at the activities of the international financial institutions, there are certain facts that deserve greater public attention -- facts which indicate that there is more than do-goodism involved in our support of these institutions.

These include:

1. The economic expansion of the countries of the developing world encourages growth in world export and import markets and this provides opportunities for U.S. suppliers. Opportunities for U.S. suppliers in turn create jobs for the American worker.

2. In these times of inflation, developing countries which are a prime source of raw materials and semimanufactured products, help augment supplies of a wide variety of products which are in short supply. In the years ahead, as the U.S. increasingly becomes a have not nation in many essential minerals and metals, our need for these products from the developing world will grow.

3. The international financial institutions promote participation by the private sector in the financing of development assistance through the sale of their bonds in the private capital markets. In turn, both domestic and foreign private investment in the less developing countries increases when the banks finance infrastructure and other important economic development projects.

4. The hard loan operations of the international financial institutions have had a major positive impact on the United States balance of payments. This positive contribution reflects procurement

in the United States and investments in the United States pending loan disbursement. And even while the soft loan operations of the international financial institutions have had a moderately negative impact on the U.S. balance of payments, <u>the overall balance of payments effect from total IFI operations has been favorable to the U.S.</u>

For example, in 1972 the positive balance of payments effect of the IFIs was approximately $400 million dollars.

Procurement deserves special mention. While there have been continuing claims that U.S. producers are discriminated against or are not given suitable advantages, empirical evidence clearly indicates that on an overall basis, such claims are not justified. And I can assure you that the U.S. Government has established procedures whereby U.S. business is informed about procurement opportunities. Naturally my office seeks to point them out whenever possible. Perhaps heightened aggressiveness on the part of the private sector is needed to exploit such opportunities. With additional price advantages due to devaluation of the dollar, U.S. industry will be in a much more competitive position to bid on procurement.

Let me now make some observations about the institution to which I have been appointed by the President of the United States as the U.S. Executive Director. The Inter-American Development Bank will be 14 years old at the end of this year and throughout its short life it has played an important role in promoting the overall economic growth of Latin America. Up through December 31, 1972 the Bank's cumulative lending reached $5,441 million, net of cancellations and

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exchange adjustments, distributed in 719 individual loans. The Bank's lending volume of $807 million in 1972 represented a broad advance in the Bank's objectives of achieving a lending level of approximately $1 billion yearly over the next five years, compared with the $600 million level which characterized its annual operations over the past three years. The Bank has become the largest lender to Latin America. The Bank has played an important part in the recent impressive performance of the Brazilian economy, in Colombia's recent substantial achievements, and in helping to lay the conditions for the present dynamism found in Caracas and Mexico City. In general terms it can be doubted whether the overall economic growth rate of Latin America would have reached 5.6 per cent in the decade of the 1960s without the efforts of the Bank and its sister institutions.

The question has been asked and will continue to be asked -- where have all the monies gone, and what good have they done? The President of the Bank, Mr. Antonio Ortiz Mena, the distinguished Mexican statesman who served his government as Secretary of the Treasury for some 12 years before joining the Bank as its Chief Executive Officer, answered this question in a recent speech.

I would like to quote him:

"They have gone principally to make the agricultural and industrial sectors of our Latin American members viable in both economic and social efforts, with pure water and proper sanitation facilities, with decent housing and other urban and rural community facilities, and with improved educational facilities required in today's technological world. More specifically, improving and bringing into production 6.5 million acres of land, making 730,000 credits through Latin American development institutions to improve output and productivity on small and medium scale farms and ranches; building or expanding more than 4,000 industrial enterprises; constructing or improving 4,500 miles of main highways and building 17,000 miles of farm to market roads; modernization of 14 ports and grain elevator facilities; installation of 6.7 million kilowatts of electric power generating facilities; stringing 4,000 miles of transmission lines; building 330,000 housing units for low income families; and modernizing or expanding 560 learning centers composed of 95 universities and 465 technical institutes."

Even if I weren't connected with the Bank, I would judge this a rather impressive list comprising the type of infrastructure and economic and social development projects needed to spur the long-term development of the countries of Latin America.

I had the opportunity to visit some of the Bank's projects in Bolivia, Brazil, and Venezuela last month. It was gratifying to see how much has been accomplished in providing potable water and sewage facilities in those countries, as well as seeing a peasant colonization project in Venezuela whose purpose is to give people a stake in their community and keep them from migrating to the cities.

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Finally, let me turn from the past record and look briefly to the future. Canada became a full-fledged member of the Bank last year and we now are looking to the prompt accession of some eighteen non-regional members to the Bank, including Japan and the countries of Western Europe. Intensive negotiations have been underway for some time towards this end and I am confident of their success in the period ahead. This expansion of the Bank's membership to include non-regional "contributor" nations as members is an important forward-looking step.

Another major policy initiative that is being carried forward is that of increasingly giving preferential treatment in lending policy and technical assistance to the growth of its least developed member countries. In 1972, 30.3 per cent of the Bank's total lending and some 62 per cent of its concessional lending in soft loans went to the poorer countries of Latin America. This trend and emphasis will continue in the months and years ahead. This policy is consistent with U.S. policy and interest in encouraging the richer countries of Latin America, such as Mexico and Brazil, to provide increasing flows of economic aid and technical assistance to the poorer nations of Latin America.

The last point I wish to mention in this view of the future is the Bank's desire to act more and more as a catalyst in projects of broad economic impact in the region. Under this policy the Bank increasingly will continue to exercise leadership in attracting capital to finance projects of a magnitude that require much larger resources than those the Bank could provide. In turn, the Bank will continue to associate itself with other financial agencies and with bilateral aid agencies and private sources of capital in financing major projects.

Hopefully, as integration efforts in Latin America become increasingly vigorous, additional projects whose scope includes more than one country will become feasible and viable. This would give additional impetus to the Bank's lending program in support of projects designed to further the eventual economic integration of Latin America.

In the years ahead these activities of the Inter-American Development Bank will require the support of the business community, the academic community, civic leaders and our elected representatives. I do feel they are worthy of your continued support.

Thank you for your attention.

September 7, 1973

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

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FOR RELEASE 6:30 P.M. September 10, 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 13, 1973, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing December 13, 1973		26-week bills maturing March 14, 1974	
	Price	Equivalent annual rate	Price	Equivalent annual rate
High	97.786 a/	8.759%	95.503 b/	8.895%
Low	97.714	9.044%	95.485	8.931%
Average	97.721	9.016% 1/	95.490	8.921% 1/

a/ Excepting one tender of $20,000; b/ Excepting five tenders totaling $1,560,000
Tenders at the low price for the 13-week bills were allotted 69%
Tenders at the low price for the 26-week bills were allotted 58%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 40,735,000	$ 30,735,000	$ 31,820,000	$ 14,770,000
New York	3,109,495,000	1,969,740,000	3,343,060,000	1,477,670,000
Philadelphia	83,880,000	63,880,000	18,540,000	13,460,000
Cleveland	40,235,000	40,235,000	67,295,000	36,780,000
Richmond	43,535,000	35,535,000	27,665,000	16,365,000
Atlanta	25,420,000	24,250,000	21,860,000	18,800,000
Chicago	260,700,000	98,875,000	307,135,000	78,435,000
St. Louis	42,875,000	32,730,000	51,535,000	25,955,000
Minneapolis	31,085,000	29,225,000	29,435,000	4,185,000
Kansas City	55,315,000	43,240,000	43,065,000	26,435,000
Dallas	40,870,000	21,870,000	55,755,000	13,255,000
San Francisco	176,935,000	109,935,000	229,045,000	74,205,000
TOTALS	$3,951,080,000	$2,500,250,000 c/	$4,226,210,000	$1,800,315,000 d/

c/ Includes $370,800,000 noncompetitive tenders accepted at the average price.
d/ Includes $242,320,000 noncompetitive tenders accepted at the average price.
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 9.35% for the 13-week bills, and 9.47% for the 26-week bills.

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

STATEMENT OF THE HONORABLE FREDERIC W. HICKMAN
ASSISTANT SECRETARY OF THE TREASURY
FOR TAX POLICY BEFORE THE
SENATE COMMITTEE ON GOVERNMENT OPERATIONS
TUESDAY, SEPTEMBER 11, 1973 AT 10:00 A.M.

Mr. Chairman and members of this distinguished Committee, I am pleased to be with you this morning to present the views of the Treasury Department on S. 1812, which was introduced by Senator McIntyre.

The Treasury Department believes that the enactment of this bill would be most unwise. Insofar as the bill affects the Treasury Department, its principal effect would be to make tax forms, which are presently the responsibility of the Treasury, subject to the Federal Reports Act of 1942, and, thus, also subject to supervision and review by another agency. The result would be not just two cooks stirring the soup, but two separate kitchens--the Treasury and the General Accounting Office.

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When Congress originally passed the Federal Reports Act of 1942, which gives the Office of Management and Budget authority to review the forms used by govenment agencies, it recognized that the problems of the tax system were unique and that it would not be workable to subject Treasury decisions with respect to tax forms to review and change by another agency. The House Committee report (2658, 77th Congress, 2nd Session) stated, in part, that:

> "the provisions of this act shall apply to the Treasury Department only to the extent that the Secretary of the Treasury may determine that compliance therewith will not interfere with the proper administration of the functions and duties imposed upon that Department by law."

The exemption of tax forms from the Federal Reports Act is even more urgent today than in 1942 because intervening legislation has enourmously increased the complexity of the tax laws. The legislative changes which frequently occur--and which often become effective in the middle of tax years--must be promptly reflected in the forms and instructions within the time constraints of tight printing and distribution schedules. Further, the bill would grant to the General Accounting Office much more drastic powers to review tax forms and order changes than are presently granted to the Office of Management and Budget, whose duties with respect to non-tax forms under the 1942 Act are primarily designed to coordinate agency actions and eliminate duplications.

The problem of forms is further complicated by the fact that to a very major degree the tax forms reflect Treasury interpretation of the substantive provisions of the tax laws. In many instances, the forms carry out legal decisions by the Treasury as to the exact manner in which an item is to be included, deducted or otherwise taken into account. Thus, the forms reflect technical legal decisions as well as what might be called "management efficiency" decisions.

The bill does not cover merely income tax returns; it covers all of the approximately 340 forms and instructions, and over 100 other public use tax publications, all of which are now subject to continuous review and revision by the Treasury. The delays inevitable in another level of review of tax forms and related materials, with provision for public hearings, could be disastrous. For example, a delay in delivering the final text of the individual income tax package to the printer could void a printing contract and leave us without sufficient time to have the package printed elsewhere and distributed to individual taxpayers by the first of the year. In order to meet printing deadlines, tax forms not infrequently are prepared or revised before a law is finally passed by Congress. This happened last year when the 1972 tax package had to be sent to the printer with the revenue sharing information included even though the law providing for inclusion of this information to be in the return was not signed until later in the year.

It is, and for many years has been, a matter of the highest priority at Treasury to see that the tax forms and materials are as efficient as possible and no more of a burden on taxpayers than is absolutely necessary. The Internal Revenue Service annually devotes more than 75 man-years directly to the development of forms and publications. In addition many other employees of the Internal Revenue Service and of the Treasury provide continuing input into that process. We are constantly reviewing proposals for simplification of forms and publications from other government units, Presidentially-appointed commissions, Congressional committees, the general public, and business and professional groups.

We welcome constructive suggestions, and have had a long and most productive relationship with the staffs of those Congressional committees whose responsibilities and expertise rest in the tax area. The Joint Committee on Internal Revenue Taxation is charged by statute with oversight of the operation and effect of the federal tax laws and with their administration. The statute specifically directs the Joint Committee to "investigate measures and methods for the simplification of such taxes" and to "publish, from time to time, for public examination and analysis, proposed measures and methods for the simplification of such taxes." The

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Joint Committee has a staff of some 23 professionals, with an additional 15 other support personnel. Most of the professional members of the staff are highly trained experts in the intricacies of the tax law. That expertise and substantial staff is indispensable if the Committee is to carry out its oversight function effectively in this extraordinarily technical area.

In the exercise of its statutory oversight duties, the Joint Committee has been cooperating closely with the General Accounting Office, which has supplied valuable assistance to the Joint Committee in evaluating those aspects of the Internal Revenue Service operations which are less intimately related to the technicalities of the tax law itself. For example, the General Accounting Office in 1971 commenced an in-depth study of the collection of taxpayers' delinquent accounts by the Internal Revenue Service and last month rendered a comprehensive report on that subject to the Joint Committee. The General Accounting Office is at present engaged in similar studies in respect of the Internal Revenue Service programs for taxpayer assistance and in respect of the Internal Revenue Service audit programs. The Joint Committee will add to these reports its own expertise with respect to the technicalities of the tax laws. We believe that this is a most promising approach to Congressional oversight and I assure you that the Treasury will continue in the future, as in the past, to give the greatest weight to suggestions and criticisms which come from these joint efforts by the Joint Committee on Internal Revenue Taxation and the General Accounting Office.

With all respect, we submit that it is wishful thinking to believe that to give a competing review function to another agency--whether to the Office of Management and Budget or to the General Accounting Office--would generate a significant simplification of tax forms and materials. On the contrary, it is sure to produce conflicting decisions and delay. It would be counter-productive, at the very least, to place upon the Internal Revenue Service the added burden of preparing written testimony, attending meetings and hearings, and explaining Treasury interpretations and positions to outside reviewers. All of this would require the diversion of scarce resources, make it impossible for Treasury to respond quickly to changes in laws and in circumstances, and seriously interfere with the interpretative responsibilities which are by statute placed upon the Secretary of the Treasury or his delegates trained in the technicalities of the tax law.

We are in complete agreement that there is too much complication in the present tax laws and, consequently, in the forms and materials required to carry them out. We believe, too, that there is always room for improvement in the forms under existing law,

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and I can assure you that we are working hard and continually to that end. The Treasury places very great emphasis on these efforts because they are crucial to the operation of our revenue system, which is based on voluntary compliance by taxpayers with tax rules. No amount of policing will achieve compliance if taxpayer cooperation should disappear. If the law becomes too complicated, many taxpayers will be unable to comply. Others will give up trying. The resulting noncompliance by significant segments of the population could infect the entire system and destroy public confidence in it.

Although there is no magic formula for eliminating complexity, we have submitted proposals to the Ways and Means Committee which, if enacted, would significantly simplify the income tax returns of individuals. This is the first step. More must be done. Other provisions of the Code must be analyzed individually to see if they have outlived their usefulness and can be pared down or integrated into broader and simpler provisions. Since our proposals were made on April 30, 1973, we have continued to study ways of simplifying the tax laws and forms as they affect individuals and small businesses. We welcome any suggestions that your Committee may have. But we do not believe that the way to achieve simplicity is to create still another administrative edifice to duplicate and complicate Treasury's efforts toward that important goal.

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

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FOR IMMEDIATE RELEASE

September 11, 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 20, 1973, in the amount of $4,302,420,000 as follows:

91-day bills (to maturity date) to be issued September 20, 1973, in the amount of $2,500,000,000, or thereabouts, representing an additional amount of bills dated June 21, 1973 and to mature December 20, 1973 (CUSIP No. 912793 SJ6), originally issued in the amount of $1,700,870,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,800,000,000, or thereabouts, to be dated September 20, 1973 and to mature March 21, 1974 (CUSIP No. 912793 TD8).

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, September 17, 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 September 20, 1973, in cash or other immediately available funds or in a like face amount of Treasury bills maturing September 20, 1973. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder must include in his income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

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

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

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FOR RELEASE UPON DELIVERY

REMARKS OF THE HONORABLE EDWARD L. MORGAN
ASSISTANT SECRETARY OF THE TREASURY FOR
ENFORCEMENT, TARIFF AND TRADE AFFAIRS, AND OPERATIONS
BEFORE THE FOREIGN TRADE ASSOCIATION
OF SOUTHERN CALIFORNIA
LOS ANGELES, CALIFORNIA, SEPTEMBER 13, 1973, 12:00 P.M. PDT

INTERNATIONAL TRADE IN THE YEARS AHEAD

I think we would all agree that the world today is in a state of flux. The rate of change and the complexity of international relationships make this a unique period in our history. A new world may truly be in the making. What the future holds and how the world will be shaped naturally depend upon our attitudes today and our solutions to problems which will lay the foundation for future growth and change.

Nowhere is this more true than in the economic sphere. We as a nation have a large stake in the world economy; thus, our participation in global economic decision-making must be vigorous. We can no more ignore this than we can ignore the need for a strong military or a strong international political posture. Each is singularly important and mutually interdependent.

Internationally, we are fast becoming a community of nations, each striving to be economically strong, yet at the same time dependent upon our neighbors. Before change and reform can take place, we, as well as our trading partners, must recognize this interdependence. So, while we must adjust our thinking to multilateral rather than unilateral terms -- so too must our peers. For instance, the United States can no longer bear alone the strains of a system predicated on our willingness to allow preferential treatment for others and large balance of payment deficits to finance an expanding world trade.

The trade talks which began in Japan this week involving some 80 nations are the first step toward establishing a new trading order. These talks, along with the continuing discussions being carried out under the aegis of the International Monetary Fund, with the next taking place in Nairobi at the end of the month, which seek to reform the international payments mechanism, will hopefully work out the path the world will take in the years ahead.

However, before progress is made on an international scale, the United States trade negotiators must have the same negotiating power the other governments possess. Therefore, in order to insure that we can deliver on the changes negotiated, to insure that the negotiations do not place an unduly heavy burden on American interests, and to insure that the Congress is our partner in these initiatives, the Administration has proposed the Trade Reform Bill of 1973. This bill is currently under consideration by the Ways and Means Committee of the House. It is designed to encourage change and to provide incentives to other nations to alter existing relationships which have become outmoded and inequitable.

The major proposals of the bill are designed to provide our government with broad flexible authority:

1. To negotiate the lowering of tariff barriers intrinsic to a more open and equitable trading system;

2. To deal with excessively rapid increases in imports that disrupt domestic markets and displace American workers;

3. To deal with unfair competition against United States products, both at home and abroad;

4. To manage United States trade policy more efficiently and use it more effectively to meet the needs of a more balanced and effective monetary system, as well as our balance of payments problems and to combat domestic inflation;

5. To permit the granting of Most-Favored-Nation treatment to countries not now receiving it in order to take advantage of new trade opportunities; and

6. To follow the lead of other developed countries in granting developing countries generalized tariff preferences designed to enhance the contribution trade can make to the development of these countries.

Despite the setback due to the unfortunate illness of Chairman Wilbur Mills, I am glad to report that the Ways and Means Committee is doing a great deal to expedite action on the bill. According to latest reports, the Committee is making every effort for the House to take action on the bill by the end of October. If this schedule prevails and the bill is enacted in substantially the form recommended by the Administration, we will have a truly effective instrument for initiating and carrying on the trade negotiations over the next several years.

We are still the world's largest economy, and as such we are in a position to provide both attractive incentives to the international trading community, and disincentives when necessary to counteract market disruption caused by unfair trade. While seeking a more open trading system, the United States has the right to, and will strive to obtain, more equitable treatment for American business, American labor and the American people.

At the Department of the Treasury, one of my responsibilities is to administer the dumping and countervailing duty laws, designed to defend American producers and labor against unfair foreign price practices and subsidization of exports.

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Since most people are not too familiar with these statutes, I would like to take this opportunity to discuss briefly what dumping and countervailing duties are.

Typically, dumping means that a foreign company is selling its merchandise for less in the United States than in its home market, causing injury to U.S. industry. Under the Antidumping Act, it is the Treasury Department's responsibility to determine initially whether a foreign company has been selling at "less than fair value," after which the Tariff Commission determines if American industry has been injured as a result. If so, dumping duties are assessed against the foreign company's imports of merchandise.

The objective of the Antidumping Act is to eliminate any incentive that foreign firms might otherwise have to dump their merchandise on the United States market.

In a countervailing duty situation, on the other hand, subsidies are paid by foreign governments on exports. The subsidies may be simple direct bounty payments or grants; or frequently, may be in the guise of other benefits to assist the exporter. Again, duties are collected in an amount which will offset these unfair subsidies.

The rationale of the Countervailing Duty Law is simple and straightforward. No U.S. firm, no matter how efficient, is in a position to compete successfully against the resources of a foreign government. Why should American firms lose contracts, and American labor lose jobs, when American merchandise is underpriced by foreign competition not through the operation of normal market forces, but because of subsidies given by foreign governments on exports to the United States? Subsidization of exports by foreign governments is recognized as an unfair international trade practice and countervailing duties are designed to defend American producers and labor against these disruptive practices.

Proposed Amendments of Antidumping Act and Countervailing Duty Law

The Trade Reform Bill of 1973 will, if enacted, make a number of significant changes in present procedures for administering these two statutes.

The principal change in the Antidumping Act is a requirement that all findings, conclusions and the rationale therefor be stated on the record. This will be helpful to American producers and importers as well as foreign manufacturers and exporters in that they will be better able to obtain case-by-case guidance as to what constitutes dumping. The bill also sets time limits for the completion of Treasury antidumping investigations, 9 months in the normal case and 12 months for more complex decisions. Although somewhat similar time limits were recently prescribed in Treasury's revised Antidumping Regulations, this is the first time they are being fixed by statute.

The Countervailing Duty Law would be amended to establish a 12-month statutory time limit for reaching decisions in countervailing duty investigations. At the present time there is no such deadline in either the statute or the Treasury's implementing regulations. Secondly, the Countervailing Duty Law, now applicable only to dutiable merchandise, would be extended to cover duty-free merchandise contingent upon a Tariff Commission determination of injury to U.S. industry. The exemption of duty-free merchandise from existing law makes little sense today, especially after the Kennedy Round cuts, when many items of a competitive nature became duty free. Moreover, if the forthcoming trade negotiations are successful, even more imports will become duty-free. The injury requirement in this case is essential from the standpoint of our international obligations and would be applicable only for such time as so required.

Other amendments to this law would authorize the Secretary of the Treasury to refrain from countervailing products already subject to quantitative limitations if the Secretary considers such limitations an adequate substitute for countervailing. The Secretary also has other discretionary authority under the bill to refrain from countervailing in specified instances where this is in the U.S. interest.

Rationale of U.S. Antidumping and Countervailing Duty Policy

Because we represent the world's largest consumer market, and because of the open access to our market traditionally allowed to foreign competition, we have over the years become a major target for foreign governments and firms willing to resort to subsidies and dumping as a means of underselling U.S. products within our own borders.

A liberal trade policy can have no meaning if we do not encompass in the definition of liberal trade the concept of fair trade. I firmly believe it is a mistake ever to allow unfair trade practices to gain a foothold, for they are an impediment to the open and fair trade policy of the United States. This Administration is firmly opposed to any policy which ignores the interests of American producers, American labor and the American consumer. And American interests would be ignored if we were to permit foreign firms to benefit either through subsidies or by resorting to dumping tactics.

I think the experience we have had in the Treasury administering the antidumping and countervailing duty laws offers some interesting insights into what the future of the world of trade may hold. Four-and-one-half years ago, when this Administration came to Washington, these two statutes were taken off the back burner and put into action. As I have pointed out, they are important statutes for guaranteeing the fairness of international trade because they act not against trade per se but against unfair practices within the trading community.

Our purpose when we began this more vigorous enforcement of these statutes, especially the Antidumping Act, was to let our trading parners know that when they traded with the United States, it should be on a fair, competitive basis. The winner in the market place would be the best product at the fairest price. That is a challenge any American is willing to take on.

Some people think -- erroneously I believe -- that the vigorous administration of these laws contributed to international tensions, or that they were unfairly and arbitrarily used against certain countries with which we were not in good trade balance. Nothing could be further from the truth. Our goal in antidumping investigations is clear and precise. It is to develop a consistent, judicious and honest determination of sales at less than fair value in each case.

We have done this, and I think the results are now beginning to appear in the way that I had hoped. There are less complaints from American industry of unfair trade practices in the dumping field. This is an encouraging development, for to me it means that we are succeeding in our objective of eliminating the incentive for foreign firms to dump in the U.S. market. The message is at last getting through -- it does not pay to dump.

Our enforcement of the Antidumping Act has become reasonably predictable and will be even more so when the Trade Reform Bill is enacted. Foreign firms which wish to trade in the United States know that our market is open and they know the rules of fair trade. Our vigorous enforcement of the Antidumping Act has deterred unfair trade practices.

In conclusion, then, we are in a period of rapid change in international trade and finance. Enormous tasks still lie ahead. New techniques of international, monetary, trade and tax management are being evolved by the United States and other major trading nations of the world. New international rules of fair play must be negotiated. Through the Trade Reform Act of 1973, and the strict administration of our fair trade laws and similar measures, this Administration looks forward to a new era of prosperity not only for the United States, but for all people everywhere.

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WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

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FOR RELEASE AT 10:00 P.M. EDT, TUESDAY, SEPTEMBER 11

STATEMENT OF GEORGE P. SHULTZ, SECRETARY OF THE TREASURY OF THE UNITED STATES, AT THE TOKYO CONFERENCE OF THE GENERAL AGREEMENT ON TARIFFS AND TRADE SEPTEMBER 12, 1973 (SEPTEMBER 11 WASHINGTON TIME)

This is an historic meeting, and I am honored to participate in it. We join here in the first formal step toward a major expansion and improvement of global trading relationships. While these negotiations build upon what has been achieved in the past, in the Kennedy Round and earlier, they are also a bold step beyond our past. Our present undertaking is broader in scope, more ambitious in objective and guided by a clearer view of economic and political realities.

I was told before I came that Tokyo would be the occasion for many speeches on the benefits of open international trade. I expect that will be true. And I consider it entirely appropriate that it should be true. As we embark upon a course of negotiations to last for many months and involving details of endless complexity, we should remind ourselves of the principles that should underlie our efforts. However obvious these principles may seem to us, the process of putting them into practice has always been difficult and is far from complete.

The basic principle that brings us here is simple and needs no great elaboration. When there is voluntary exchange, both parties--the buyer and the seller--gain. If they did not, one party or the other would refuse to exchange. This principle is as valid when the parties are in different countries as when they are in the same country. Obstacles that governments place in the way of trade, internally or externally, prevent people from doing business that would be beneficial to all participants.

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What is involved is more than one country trading what it produces most efficiently today for what another country produces most efficiently today. Open trade forces and stimulates all of us to become more efficient. The wind of foreign competition drives businesses in all countries to more innovation, greater research and development efforts, and better adaptation to the wants of consumers.

Our generation has more cause to recognize the force of these ideas than any before us. We have been living through the greatest and most widely shared economic advance in world history, and the greatest expansion of international trade. This combination of developments is, of course, no coincidence.

The growth of world output has contributed to the rise of trade, but the rise of trade has also contributed to the growth of world output. Greater access to markets has promoted specialization in production, and thereby the better use of each country's resources. Competitive pressure from foreign firms has stimulated the growth of technology and business acumen.

As a result of greater openness in the world economy, economic opportunities have been substantially broadened for the citizens of all nations and the standard of living has improved throughout the world. Freer trade has led to higher real wages for working men and women and a wide choice of goods to consumers.

One recent development in economic policy holds a useful lesson for all of us. Governments in many parts of the world such as Australia, Japan, Canada, some European countries and the United States, have been led by compelling domestic reasons to reduce unilaterally their tariffs or quotas, without asking for reciprocal concessions from others. Although the circumstances in each case may have differed, this is a reminder that we should not think of every reduction of our own restrictions as a concession made for the benefit of others and worthwhile only if there is a greater or at least equal concession by others. The general principles that guide our work suggest that we gain from reduction of our own barriers as well as from reduction of the barriers of others.

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Of course, there are qualifications to the basic ideas of trade liberalization. The participants in this conference, who live in the governmental and political process, are especially aware of these qualifications. Substantial reduction of trade barriers may cause local and temporary difficulties that cannot be ignored, however great the longer run and more general benefits may be. Transitional protection may sometimes permit the achievement of efficiencies that would not be possible without it. Other reservations can be thought of.

These qualifications constitute the case for gradualism, selectivity and mutuality. No doubt, much of the time in the negotiations now beginning will be devoted to these qualifications. But let us, as we say in the United States, keep our eye on the ball -- the liberalization and expansion of trade -- and seek to deal with the problems in ways most consistent with that overall objective.

I see a number of important challenges for these negotiations. In listing them, I do not mean to imply they encompass the full range of issues that we expect these negotiations to cover, nor that they will necessarily appear as specific items on the agenda for the negotiations.

GUIDELINES AND PROCEDURES

The central challenge for these negotiations is, as I see it, to develop guidelines and procedures that will permit the elimination of barriers to trade, while preserving the ability of governments to carry out their domestic responsibilities. Many of the important barriers that still hamper international trade result from the efforts of individual governments to achieve a variety of domestic economic, social and political objectives. We must develop the means whereby these barriers can be eliminated or minimized. Because national needs and policy preferences frequently differ, we need to develop rules that will give each government considerable leeway in forming and pursuing its own policies. At the same time, we need to encourage countries to devise policy measures that minimize disruption of the economic interests of other nations.

In an interdependent world, the policies pursued by any one government in carrying out its domestic responsibilities are bound to conflict at one time or another with the policies pursued by other governments. We therefore will have to focus on the procedures and arrangements that are designed to minimize these conflicts and effectively to resolve disputes that may arise. Our common institutions, such as the GATT, have performed this role well. These institutions are aging, however, and while they may be structurally sound, it is important that we look closely at our recent experiences in dealing with trade problems to see where the rules and procedures can be updated and improved.

SAFEGUARDS AGAINST DISRUPTIVE IMPORTS

Our recent experience would indicate that we need particularly to look at the rules and procedures that deal with problems of import disruption. Every country represented here has at one time or another found it necessary to limit imports temporarily in order to permit domestic industry enough time to adjust. Frequently the current rules and procedures covering such actions have proved unsuitable, and governments have had to work out informal arrangements. While such arrangements have proved expedient, they have not been able to cope with all problems, and have been accompanied by an unnecessary degree of international friction. It is time that we face this issue squarely, and together design a mutually acceptable safeguard system.

FOOD

Another area where common action would be desirable is the area of agriculture. The current shortage in agricultural supplies and the danger that it will be repeated in the future gives great urgency to the need to find a more rational pattern of production and trade in agricultural commodities. If we take advantage of this occasion to expand opportunities for world trade in this area, we will be able to make available more food at cheaper prices for everyone.

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A number of thoughts have been expressed on how this might be accomplished. We are willing to examine any serious proposal.

In the past year, we have seen how international trade in agricultural commodities can help to avoid what would otherwise have been critical food shortages. The decline in world grain production was alleviated for many countries by the ability to import, especially from the United States. Despite poor growing weather and poor harvests in our own country, we have supplied greatly enlarged quantities of goods and feeds to countries in every part of the world, partly at the expense of a substantial reduction in our own stocks.

Our exports of wheat in FY 1973 reached 32 million metric tons, almost double the amount shipped in FY 1972, and equivalent to three-fourths of U.S. production. Exports of feed grains jumped sharply from 21 million tons to 35 million tons. And soybean exports rose to 14 million tons, an increase over the previous year of 2 million tons. More than half of our soybean crop went into export. Indeed, all of the increase in our soybean crop was exported last season.

Although our stock position has been sharply reduced, we anticipate that an excellent feed grain and record soybean crop this season will permit us to meet foreign demand for these commodities in FY 1974 with exports at levels higher than the record levels of last year, and that our wheat exports will be close to last season's very high level. To meet anticipated world needs this year, we have put millions of acres back into production and for 1974 all our reserve acreage has been removed from set-aside restrictions. We have proved that in the pinch, the United States is, indeed, a dependable supplier -- and that its market-oriented system can be relied upon.

REGIONAL INTEGRATION AND THE MOST-FAVORED-NATION PRINCIPLE

Now let me turn to a development that has been a source of increasing concern to the United States. Over the past few years we have seen a tendency to move away from the notion of a single world trading system in which all nations are treated equally. The most-favored-nation principle has been the cornerstone of our global system. Now we are seeing that principle increasingly disregarded. At a time when the circle of nations participating in the world trading system is increasing, we need to rededicate ourselves to the ideals of a single non-discriminatory trading order.

I should say in this respect that we continue to support the many regional efforts to achieve political and economic integration. This makes sense where neighboring countries, sharing common traditions, find their economic affairs increasingly linked. We feel compelled to insist, however, that such efforts not undermine the global system that we have built together, and from which we have derived great benefit. It is thus important that countries in regional groupings organize themselves in such a way that they can effectively discharge as a unit the responsibilities to which they have committed themselves individually as nations.

SUPPORT FOR LESS DEVELOPED COUNTRIES

We support efforts to give the less developed countries special access to foreign markets. We believe that such arrangements will benefit the industrial nations as well as the developing nations. We also recognize that it would not be appropriate or desirable for us to insist that these countries assume the same responsibilities as we expect from those countries that have achieved a relatively high degree of economic development. At the same time, however, we do expect commitments appropriate to a nation's stage of development and to a sharing of the responsibility for the effective working of the global system. No international undertaking can succeed if those who derive a benefit from it do not contribute to it. And the system as a whole cannot work unless all nations contribute to its effective functioning.

MONETARY AND TRADE INTER-RELATIONSHIPS

Lastly, let me say a word about the relationship between our efforts here and those related to the reform of the world monetary system. We recognize the inter-relationship between monetary affairs and trade matters. A primary goal of an international monetary system, on the one hand, is to facilitate trade; that objective is seriously jeopardized when monetary relations become unstable. On the other hand, the logic is equally strong that the adjustment process in the monetary system is less effective and less responsive when trade is restricted by direct measures, and can respond only slowly, and in a partial and distorted way, to the forces of the monetary adjustment process.

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In short, actions in one field can, but should not be allowed to, frustrate the solutions reached in other fields. There is thus a need for simultaneous improvement in all elements of the international economic system.

Although concrete progress in one area of negotiation should not be held hostage to specific negotiations in another, overall success in one area will ultimately be dependent on success in another. Where specific overlaps do occur, work in one area ought to supplement rather than frustrate work in other areas.

NEGOTIATING MANDATE OF THE UNITED STATES

My government believes it is important to take advantage of the opportunity presented by these negotiations and is anxious to participate vigorously. In implementing negotiated changes and in strengthening our commitment to the basic objectives, of course we will need the support, advice, and concurrence of our Congress.

President Nixon submitted his trade reform act to the Congress in April of this year. That bill has received thoughtful and highly constructive consideration in the Ways and Means Committee of the House of Representatives and will likely remain under consideration in the Congress for a few more months. The ranking Democratic and Republican members of that Committee issued a statement last week expressing their "hope and belief that we will complete work on the bill by October 1." They also said, "we believe that the Committee will report a bill that will provide sufficient scope for comprehensive negotiations aimed at removing trade barriers and substantially expanding world trade. It is our hope and purpose that the Congress will act on this legislation in ample time to facilitate these negotations."

The fact that our trade bill is still under Congressional review does not impede our ability to participate actively and fully at this stage. The negotiations which begin at this conference will, at the outset, concentrate on preparing the way for the detailed bargaining process to come. We remain committed to the start of substantive work on these negotiations in late October of this year and, to the pursuit of that work on an intensive and continuous basis, without any interim delay.

I must call to your attention the fact that the attitude of the Congress toward these negotiations -- and therefore, the mandate they will be willing to give our negotiators -- will be influenced by the manner in which we are able to settle in coming months some outstanding issues with our trading partners. We have already reached satisfactory agreements recently with some of our major trading partners to eliminate long-standing trade restrictions inconsistent with the Gatt. This has been a very positive development and clearly demonstrates to domestic observers that the Gatt does work. There are, nonetheless, some other issues pending at this time. We view the settlement of these issues as an indication of the confidence we can have in the ability of the international community to reach an agreement on a more open and improved world trading order and we know that it is essential to demonstrate the basis for this confidence to the Congress.

THE UNITED STATES' APPROACH

In a few words, the United States' approach to these negotiations will be based on the following ideas:

1. We desire to expand the opportunities for international trade, and are willing to participate fully in the common effort to eliminate or reduce barriers to all trade, agricultural or industrial.

2. We seek an agreement that will be beneficial to all the participants and recognized as such by them. This will require that the agreement be balanced from the standpoint of each participant. However, we believe that to insist on a balance in every individual component of every agreement is unnecessary and would undesirably limit what can be achieved.

3. We believe that there should be a substantial expansion of duty-free trade as well as a substantial reduction in the average tariff on the remaining dutiable items.

4. We consider it one of the main objectives of these negotiations to remove as many non-tariff barriers as possible and to reduce as far as possible those that cannot be removed.

5. Reduction of barriers to agricultural trade is a major goal and negotiations to that end should move forward together with negotiations on industrial products. We should agree that where we find domestic actions necessary to assist our own farmers, those actions should not be of a kind that injure farmers in other countries.

6. We believe that the maximum liberalization of trade will be achieved if we can agree on a multilateral safeguard system that will allow governments to take appropriate actions when a rapid rise of imports threatens to disrupt domestic production in a particular industry, but at the same time will assure that such measures will not be any broader or continued any longer than necessary for the domestic adjustment process.

7. We have an open mind about the specific techniques or arrangements to be employed in achieving the common goals of the negotiations.

8. We are eager to see the negotiations begin promptly and proceed rapidly and pledge our maximum cooperation to that goal.

LET US BEGIN

We look to the Trade Negotiations Committee (TNC) to play an important role in guiding these negotiations toward their desired ends. We hope that the TNC will begin its work as soon as possible, setting up procedures for subgroups, and moving them promptly toward continuous, effective work on the substance of the negotiations. We hope that the participating governments can focus on trade negotiating plans, undertake the basic analytical work which needs to be done at the earliest possible date and begin this process in the TNC no later than November 1. Once we have begun, we should work in earnest, continuously, so that the target of finishing in 1975 can be met.

In our view, the declaration negotiated by the Preparatory Committee in July represents a sound basis for beginning these negotiations and provides useful political guidance for our negotiators to follow. While we recognize that there are some disagreements with the declaration based on specific points of substance or emphasis, the declaration does provide a framework for achieving ends desirable to us all. To translate that declaration into change in our trade relations is the task which will be before us throughout these negotiations.

The progress we all want in these negotiations can only be accomplished by a joint effort in which all of us make appropriate contributions and receive appropriate benefits. Let this declaration of Tokyo serve as a starting point and a point of inspiration. Let the vision which has in the past inspired nations to achieve great goals guide us in a common effort to construct a durable order that will contribute to international harmony and prosperity for us and for future generations.

Department of the TREASURY NEWS
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FOR IMMEDIATE RELEASE September 12, 1973

DETERMINATION OF SALES AT NOT LESS
THAN FAIR VALUE ON POLYPROPYLENE STRAPPING FROM JAPAN

Assistant Secretary of the Treasury Edward L. Morgan announced today a 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, 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 September 13, 1973.

A Notice of Tentative Negative Determination was published in the Federal Register on July 17, 1973. This notice invited interested persons to submit written views or arguments, or requests for an opportunity to present their views orally.

During the year beginning July 1, 1972, imports of polypropylene strapping from Japan were valued at roughly $500,000.

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Statement by

James E. Smith

Comptroller of the Currency

before the

House Committee on Banking and Currency

September 13, 1973

Mr. Chairman and members of this distinguished Committee, I am pleased for this opportunity to join with you in analyzing the causes and effects of our current financial dilemma and in considering reforms for our financial intermediation system which will strengthen that system's capacity to function more effectively throughout the cyclical changes in the economy.

The Chairman's letter of invitation to appear at these hearings and the accompanying Committee staff report on financial institutions reform establish an awesomely panoramic focus for this inquiry. Both because of the statutory province of the Office of the Comptroller of the Currency and my own brief term on duty, I shall direct my comments to the more limited domain of reforms affecting the structure and functions of our deposit financial institutions.

Throughout the course of these hearings, you will receive testimony from experts on fiscal and monetary policy. I pretend no such expertise. Nor, for the purposes of my discussion, is it necessary to treat with the underlying economic forces that bring about another period of monetary restraint. It is sufficient to stipulate that for the third time in just seven years we find inflationary pressures having built to a level that necessitates policies of tightening monetary control with attendent sharp increases in short-term interest rates and restricted availability of credit.

Again, as in 1966-67 and 1969-70, we find the deposit financial institutions - savings and loan associations, mutual savings banks, and commercial banks - under increasing strain in the performance of their intermediation function. Journalistic attention has tended to focus on the deposit outflows from the thrift institutions and the resulting adverse impact on both the cost and availability of home mortgage credit. But the Federal Reserve Board's statistical series of weekly reporting banks indicates that the last three weeks of August produced an intensifying deposit flow problem for commercial banks as well. Thus that condition - unpleasant both in effect and in sound - called disintermediation is upon us!

As we assess this latest period of economic destabilization, we must be careful to separate cause from effect. This is especially so when we are considering reform and modification of the structure of our financial institutions. Structural reform of these institutions is absolutely necessary, and it is this subject matter to which I will address most of my comments.

Our objective in making institutional reforms in the financial system must be to strengthen the capacity of that system to perform its intermediation function during all phases of the economic cycle. We must avoid the mistaken assumption that by altering the framework of our financial institutions we can somehow cure the basic ills that give rise to periods of destabilization. By mistaking effect for cause we create potential danger for undertaking changes detrimental to our financial system.

In an earlier period of extreme monetary stringency (1966-67) we sought to mitigate the impact on deposit institutions by resorting to a regulatory relic of the Banking Act of 1933; namely, ceiling rate regulation of the interest paid on time and savings deposits. This price-fixing mode of regulation, which had its origins in some invalid assumptions regarding the causes of past financial problems, has shown itself to be both inadequate in its protection of the deposit institutions and unfair in its effect on their deposit customers.

The Governmental imposition of ceiling rates on deposits is predicated on the false assumption that ceilings offer meaningful protection to deposit institutions during periods of sharply rising short-term interest rates. Perhaps it mutes somewhat the competition among the deposit institutions, but any such limited benefit is vastly outweighed by the collective handicap these institutions face in competing for funds with market instruments such as Treasury bills, U.S. agency issues and corporate debentures. In the two previous periods of recent experience, deposit-rate ceilings did not work to insulate the institutions from deposit outflows. They are not working today. Moreover, such rate setting is highly discriminatory to the consumer-saver, who lacks either the financial sophistication or the monetary wherewithal to shift his funds to the high-yielding market instruments.

Over the past decade, ceiling regulation of deposit rates has come under increasing attack from both academic observers and financial practitioners. Even with only a brief exposure to the regulatory role, I believe I better understand the inherent weaknesses in such a system. Governmentally-regulated deposit rates will never keep in real touch with market rates. They will always lag by some considerable margin. On the "up side" the regulatory instinct is one of caution against "posting" a rate too high for our marginal institutions. On the "down side" concern for consumer reaction causes delay in reducing ceilings (which have also become floors) with the result that deposit rates stay racheted above market rates. These inherent inefficiencies in a system of regulated rates are harmful both to the deposit institutions and the consumers they are meant to serve.

Having had this regime of government price fixing in effect for forty years with respect to the banks and for seven years with respect to the thrifts, its instant removal would undoubtedly cause some dislocations in our financial system. Furthermore, there is a necessity to augment the powers of the thrift institutions to serve household and consumer needs before we totally withdraw rate regulation. Added powers for the thrift institutions should make it possible for thrift institutions and banks to compete on essentially equal footing for household deposits. Increasingly all of these institutions will be looking to these consumer deposits as the stabilizing element in their deposit structure.

As you are aware, on August 3rd, President Nixon sent a message to the Congress, calling for a number of modernizing reforms of our depository institutions. The central thrust of the President's message is that we must ensure the continued viability of the thrift institutions as our principal residential mortgage financers through additional consumer-service powers and diversification of their loan and investment portfolios. Also, we must unshackle our entire financial intermediation system from the deadening grip of self-defeating deposit rate regulation so as to better avoid the cycle of feast or famine in our credit markets.

While there are some differences of degree and detail between the Administration's recommendations and the proposals of this Committee's staff for broadening the powers of the thrift institutions, there is, nevertheless, considerable agreement as to the general objectives and the approach to them. I would hope that this Committee would give special attention to this area.

Your Committee's inquiry comes at a time when the Congress and the President are searching for opportunities to make common cause for the constructive advancement of this Nation. Of the subject matter you will consider, none has a higher order of priority or a brighter prospect for real accomplishment than modernizing reform of our deposit financial institutions. Reforms of the type recommended by the President offer the dual benefits of broadening and intensifying competition in the field of consumer finance and assisting the thrift institutions to attain viability over the economic cycle. I earnestly hope that this distinguished Committee will move in this Session to begin work on this important legislative project. Thank you!

Department of the TREASURY NEWS
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MEMORANDUM FOR THE PRESS Sept. 12, 1973

The attached notice appeared in today's Federal Register.

Attachment

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DEPARTMENT OF THE TREASURY

Office of the Secretary

LOAN TO THE GOVERNMENT OF BRAZIL GUARANTEED BY THE UNITED STATES

Public Notice of Invitation To Bid By Financial Institutions

I. INVITATION TO BID—CLASSES OF BIDDERS

The Secretary of the Treasury, acting for the Secretary of Defense by this notice and under the terms and conditions hereof invites bids on the interest rate on a $15,000,000 loan to the Government of Brazil, hereinafter referred to as the Borrower. The loan is described in Section II hereof. Bidding hereunder shall be subject to the "Regulations Governing the Sales of Treasury Bonds Through Competitive Bidding" (31 CFR 340) insofar as applicable.

The purpose of the loan is to provide private financing for the purchase by the Borrower of defense articles and services from United States sources in furtherance of the Foreign Military Sales Act, as amended, P.L. 90-626, October 22, 1968, 82 Stat. 1326; 22 U.S.C. 2571-2793 and Executive Order 11501, December 22, 1969, 34 F.R. 20169.

Bids will be received only from incorporated banks, trust companies, recognized dealers in investment securities, and other financial institutions doing business in the United States. Bids must be submitted to the Federal Reserve Bank of New York in accordance with the provisions of the last section hereof.

II. DESCRIPTION OF LOAN AGREEMENT—COMMITMENT FEE

(a) The principal features of the loan are as follows:

(1) There will be a commitment fee payable semiannually of one-quarter of one percent (1/4 of 1 percent) per annum on the daily average unused amount of the commitment. The commitment fee will be calculated on a 365-day basis and actual days elapsed.

(2) There will be a commitment period from the "date of execution" of the loan agreement to and including June 30, 1974, or such earlier date as the entire commitment of the lender shall have been utilized. For this purpose, the "date of execution" will be the date on which the loan agreement is signed on behalf of the Borrower or the date on which the Department of Defense executes the guaranty agreement, whichever is later.

(3) The minimum drawdown under the loan agreement will be 1/100th of the principal amount bid.

(4) The principal is to be repayable in seven consecutive annual installments commencing on May 31, 1975, as indicated in Exhibit C attached to the loan agreement. Interest is payable on a fixed semiannual basis beginning on November 30, 1973, and thereafter on May 31 and November 30 of each year until the entire principal has been repaid. Interest is payable with the principal beginning on May 31, 1975.

(b) Bidders should fill in the blanks in the loan agreement and should furnish three signed copies when submitting the bids. Most of the blanks are self-explanatory, but the following guides are to be used for the others:

(1) At section 4.2(a). The maximum aggregate liability under the Government guaranty will be 100 percent of the principal amount bid plus 60 percent of one year's interest thereon.

(2) At section 7.1. The guaranty fee will be 1/400th of the amount of liability under the guaranty.

III. UNITED STATES GOVERNMENT GUARANTY OF LOAN—GUARANTY FEE

The loan agreement provides that the obligation of the lender is to be conditioned upon the issuance by the United States of a guaranty of timely payment of principal and interest by the borrower. The guaranty will further provide that the United States agrees that any claim which it may now or hereafter have against any beneficiary for any reason whatsoever shall not affect in any way the right of any other beneficiary to receive full and prompt payment of any amount otherwise due under this guaranty.

In addition, the borrower covenants at section 5(b) of the loan agreement that:

> Any claim which it may now or hereafter have against any person, corporation, firm or association or other entity (including without limitation, the United States, DOD, any Bank, any assignee of any Bank, and any supplier of the Defense items) in connection with any transaction, for any reason whatsoever, shall not affect the obligation of the Borrower to make the payments required to be made to the Undersigned under this Loan Agreement, or under the Notes, and shall not be used or asserted as a defense to the payment of such obligation or as a setoff, counterclaim, or deduction against such payments.

The guaranty, which is authorized by the Foreign Military Sales Act, will be made by the Government of the United States acting through the Department of Defense. The Act provides that "any guaranties issued hereunder shall be backed by the full faith and credit of the United States".

IV. TAX EXEMPTIONS

(a) There will be *no*—

(1) Federal income tax resulting from Section 7.1 of the loan agreement which will provide that the Borrower shall pay to the lender the guaranty fee charged to the latter by the Department of Defense; (The lender will be acting merely as a conduit.)

(2) Federal stamp tax;

(3) interest equalization tax; or

(4) tax imposed by the Borrower.

(b) The interest paid on the loan by the Borrower will constitute income from sources without the United States in the hands of the lender or any holder of the promissory notes or participations in the loan. Since the interest is foreign source income, there will be no United States witholding under any circumstances.

V. THE LOAN PROMISSORY NOTES, PARTICIPATIONS—ELIGIBILITY FOR PURCHASE BY NATIONAL BANKS AS COLLATERAL FOR TREASURY TAX AND LOAN ACCOUNTS ETC.

(a) Because of the guaranty, the loan the promissory notes and the participations are deemed to be fully and unconditionally guaranteed obligations of the United States backed by its full faith and credit. Accordingly, they will not be subject to the lending limits of national banks or to the limitations and restrictions concerning dealing in, underwriting and purchase of investment securities.

(b) Section 1.4 of the loan agreement authorizes the sale of participations to legal entities doing business in the United States. Such participations will be acceptable from special depositaries of public money at their face amount to secure deposits under Department of the Treasury Circular No. 92, current revision (31 CFR 203), provided that the adequately identify the loan and meet the following conditions:

(1) The participation certificate contains the following provision: "Participant may assign or endorse over this participation certificate to the (*Name of the Federal Reserve Bank or Branch of the territory in which the participant is located*) in connection with a pledge of collateral security to protect a Treasury tax and loan account under Treasury regulations published at Title 31 Code of Federal Regulations, Part 203. In the event that this participation certificate is assigned to (*Same bank or branch as above*), it shall not be further assigned or sub-divided without prior written notice to that bank and the prior written consent of this bank."

(2) The participation certificate is supported by the original or certified copies of the guaranty agreement relating to the basic loan and the necessary power of attorney and resolution in favor of the Reserve Bank as prescribed in 31 CFR 203.8(d).

(3) The guaranty agreement provides that the guaranty referred to therein is transferable to any participant or beneficiary.

VI. Submission of Bids—Acceptance and Opening of Bids

Each bid shall be submitted in triplicate on the letter head of the bidder and shall specify a single annual rate of interest which shall apply on a 365-day basis only to the portion of the loan in use. The rate shall be expressed as a percent per annum not to exceed three decimals, for example, 5.125 percent. Each bidder may submit a bid for the entire amount of the loan or portions thereof in multiples of $5,000,000.

The bids must be enclosed and sealed in envelopes and must be received in the Securities Department of the Federal Reserve Bank of New York, 33 Liberty Street, New York, New York 10045, not later than 11 a.m., e.d.t., on September 28, 1973.

Bids will be opened at the Federal Reserve Bank at 11 a.m., e.d.t., on September 28, 1973. In determining successful bids, those specifying the lowest rate of interest will be accepted to the extent required to attain the aggregate amount of the loan. Upon the award of bids, the Government of the United States will promptly secure the signature of the borrower to the loan agreement, as well as to necessary copies thereof, and will return one copy.

[SEAL]

GEORGE P. SHULTZ,
Secretary of the Treasury.

SEPTEMBER 6, 1973.

Supplementary Notice

Please note the following:

(1) With the respect to Exhibit B of the Loan Agreement, the bidder should not fill in the model promissory note when submitting its bid. This model promissory note will be used at the time of individual drawdowns by the borrower.

(2) It is anticipated that the initial drawdown on the loan, which will be made prior to November 15, 1973, will be in the amount of about $2,000,000. There will be another drawdown of about $4,000,000 before the end of 1973.

(3) Section II(b)(1) of the Invitation to Bid states that the aggregate liability under the Government guaranty will be 100 percent of the principal amount plus 60 percent of one year's interest. This is really a 100 percent guaranty of both principal *and* interest because if, in case of default, the lender exercises its rights under sec. 6 of the loan agreement the interest liability could not possibly exceed the stated 60 percent.

(4) Any questions concerning the invitation to bid or related documents should be telephoned, mailed or wired to the Department of the Treasury, Bureau of the Public Debt, Room 200, Washington Building, Washington, D.C. 20220. The telephone number is 202-964-2992 or 202-964-2247.

(5) If bidders desire to have representatives at the announcement of the results of the bidding, they should give to the Federal Reserve Bank Securities Department at the Liberty Street address (see Sec. VI, p. 7) timely notice of those they intend to have present at the opening. However, this is not essential to the award of bids.

(6) The results of the bidding will be announced in the Press Room on the 10th Floor. Bank representatives should enter the Bank at the Liberty Street entrance.

Loan Agreement

LOAN AGREEMENT made and entered into the ____ day of ________ 1973, between the Government of Brazil (hereinafter sometimes referred to as the "Borrower") and ________ ________________, (hereinafter sometimes referred to as the "Undersigned").

WHEREAS by public notice (which notice is incorporated in this agreement as if fully set forth herein) the Secretary of the Treasury has invited bids on a loan in the amount of $15,000,000 to the Borrower at the lowest basis cost of money;

WHEREAS the Undersigned has submitted a bid in the amount of $______ for the hereinafter more fully described loan at an interest rate of ____ percent per annum;

NOW, THEREFORE, in consideration of the premises and of the mutual covenants hereinafter set forth, the parties hereto agree as follows:

Section 1. Commitment

1.1 Subject to the terms and conditions of this Loan Agreement the Undersigned agrees to make loans to the Borrower at any time and from time to time from the date of this Loan Agreement to and including 30 June 1974 or such earlier date as the entire amount of the loan bid by the Undersigned shall have been utilized.

1.2 Each borrowing hereunder shall be made on such date (hereinafter referred to as a "Disbursement Date") as may be designated by the Borrower upon three (3) days' concurrent written notice from the Borrower to the Undersigned. The initial borrowing hereunder shall be made prior to 15 November 1973. Except for the last borrowing, each such notice shall request a borrowing aggregating at least 1/100th of the principal amount bid. Each notice requesting disbursement (a) shall specify the amount of the loan to be made by the Undersigned on the Disbursement Date; (b) shall be delivered to the Undersigned at its address set forth in section 7.3 hereof; (c) shall specify the account of the Borrower at such Bank to which the proceeds of each loan are to be credited; and (d) shall have annexed thereto the documentation set forth in Exhibit A (Disbursement Procedures) annexed hereto.

1.3 The Borrower hereby agrees to pay to the Undersigned a commitment fee computed at the rate of one-quarter of one percent (¼%) per annum on the daily average unused amount of the Commitment from the date of execution of this Loan Agreement to and including 30 June 1974, or such earlier date as the entire Commitment of the Undersigned shall have been utilized. Such commitment fee shall be calculated on a 365-day basis and actual days elapsed.

1.4 The Undersigned may sell participations in the loan to legal entities doing business in the United States.

1.5 At the time at which the Borrower shall send the notices required by section 1.2 above to the Undersigned it shall deliver thereto a promissory note (which shall be substantially in the form of Exhibit B annexed hereto (with the blanks appropriately filled in)) evidencing the obligation of the Borrower to repay the amount of the loan from the Undersigned with interest thereon as hereinafter set forth. Upon request by the Undersigned at any time, the Borrower shall deliver to the Undersigned, in place of any such promissory note, two or more separate promissory notes in such amounts, aggregating not more than the amount of the note such notes shall replace, as shall be specified by the Undersigned. The promissory notes hereinabove referred to are hereinafter referred to as the "Notes" and individually as a "Note".

Section 2. Repayment

2.1 The Borrower hereby agrees:

(a) To pay interest on the outstanding balance of the principal of the loans made under this Loan Agreement on a fixed semiannual basis, such interest payments to begin 30 November 1973, and thereafter on 31 May and 30 November of each year following, until the entire principal of the loans shall have been repaid; and

(b) To repay the principal of the loans made under this Loan Agreement in accordance with the Principal Repayment Schedule set forth in Exhibit C annexed hereto.

(i) If on any installment repayment date set forth in the Principal Repayment Schedule the Borrower shall not have availed itself of the Commitment of the Undersigned in an aggregate amount (less repayments previously made) equal to the aggregate installment of principal which is repayable on such date to the Undersigned, the Borrower shall, on such installment repayment date, repay to the Undersigned the full amount (less repayments previously made) to which it has availed itself of the Commitment of the Undersigned to such date, together with the interest accrued thereon. If at any time thereafter the Borrower shall avail itself of the Commitment of the Undersigned in an amount which would have been payable on a prior installment repayment date but for the provisions of the immediately preceding sentence, such amount, together with interest accrued thereon, shall be repayable on the next succeeding installment date of the Principal Repayment Schedule occurring after the disbursement of such amount and the said aggregate installment of principal repayable under the Principal Repayment Schedule to the Undersigned on that date shall be increased by such amount.

(ii) If by the date specified in paragraph 1.1 above, the Borrower shall not have availed itself of the entire amount of the Commitment, the installments of principal repayable to the Undersigned set forth in the Principal Repayment Schedule shall be reduced in the inverse order of the maturity thereof to the extent of the unused balance of the Commitment.

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2.2 The Undersigned may sell or assign, at any time, in whole or in part, any one or more of the Notes and/or its rights to receive repayments.

2.3 Each Note shall be dated the Disbursement Date of the loan which such Note evidences and shall bear interest at a rate of ---- percent (---- %) per annum on the unpaid principal amount of such Note until such amount shall be paid in full. Such interest on each Note shall be payable as provided in 2.1. The Notes shall be completed by the Borrower in such a manner that repayment of such loans shall be made in the order of their disbursement, utilizing the Principal Repayment Schedule set forth in Exhibit C (as the same may be adjusted in accordance with sections 2.1(b)(i) and 2.1(b)(ii) hereof), and, in determining whether a particular loan is payable in one or more installments, utilizing a particular installment payment date only after the full utilization of the next preceding installment date.

2.4 The Borrower may, with the prior written consent of the Undersigned, which consent will not be unreasonably withheld, prepay any of the Notes held by the Undersigned, in whole or in part, on any repayment date, with accrued interest to the date of such prepayment on the amount prepaid.

2.5 Whenever any payments hereunder or under any Note shall be due on a Saturday, Sunday or public holiday under the laws of the District of Columbia, such payment may be made on the next succeeding business day, and such extension of time shall, in such case, be included in computing interest in connection with such payment, but excluded from the next interest period.

2.6. All payments by the Borrower to the Undersigned under this Loan Agreement and on the Notes, including without limitation payments of principal of, and interest on, the Notes and payment of any commitment fees or other fees or expenses hereunder, shall be payable to the Undersigned at the address set forth in section 7.3 hereof in U.S. dollars and in immediately available funds.

SECTION 3. REPRESENTATIONS AND WARRANTIES

The Undersigned has entered into this Loan Agreement and will make the loans provided for herein on the basis of the following representations and warranties of the Borrower:

3.1 The Borrower has full power, authority and legal right to incur the indebtedness contemplated in this Loan Agreement on the terms and conditions contained herein, and to execute, deliver and perform this Loan Agreement and the Notes;

3.2 The execution, delivery and performance of this Loan Agreement and the Notes will not violate any provisions of, and have been duly and validly authorized under, the laws of the Borrower, and all actions necessary to authorize the borrowings hereunder and the execution, delivery and performance of this Loan Agreement and the Notes have been duly taken; and

3.3 This Loan Agreement has been, and each of the Notes when issued will be, duly executed and delivered by persons thereunto duly authorized, and this Loan Agreement constitutes, and each of the Notes when issued will constitute, the valid, legally binding, direct and unconditional general obligation of the Borrower, enforceable in accordance with its respective terms.

SECTION 4. CONDITIONS OF LENDING

4.1 The obligation of the Undersigned to make the initial loan to be made by it hereunder is subject to the condition precedent that, prior to the first Disbursement Date, it shall have received an opinion in the English language of the Legal Adviser to the Ministry of Defense of the Government of the Borrower, dated the date of the initial Disbursement Date, to the same effect as sections 3.1, 3.2, and 3.3 hereof, and to the further effect that specified officials of the Borrower identified by name and title in such opinion are duly authorized to execute and deliver this Loan Agreement, the Notes and such other documents as may be required hereunder on behalf of the Borrower, to establish and draw upon an account of the Borrower, at the Bank to which account the Undersigned shall disburse the proceeds of all borrowings hereunder, and to certify to such Bank on behalf of the Borrower the identity, names and titles of any other or additional officials of the Borrower who thereafter may be so authorized.

4.2 The obligation of the Undersigned to make the initial loan to be made by it hereunder is subject to the further conditions precedent that, prior to the first disbursement, it shall have received:

(a) The guaranty of the United States (the "Guaranty"), executed by DOD, guarantying it against all political and credit risks of nonpayment of the obligations of the Borrower to the Undersigned hereunder (including the entire amount of the principal loaned by the Undersigned hereunder and interest thereon at the rate determined as specified herein, but excluding any amounts owing for commitment fees or other fees or expenses), up to a maximum aggregate liability to the Undersigned under the Guaranty on the part of the United States of $------ dollars (U.S. $------), pursuant to the Act; and

(b) An opinion of the General Counsel of DOD, to the effect that (i) DOD has full power, authority and legal right to execute, deliver and perform the Guaranty, (ii) the Guaranty has been executed in accordance with and pursuant to the terms and provisions of the Act and DOD has not, in issuing the Guaranty, exceeded the maximum amount of guaranties authorized to be issued under the Act, (iii) the Guaranty has been duly executed and delivered by a duly authorized representative of DOD, and (iv) the Guaranty constitutes the valid and legally binding obligation of the United States, enforceable in accordance with the terms thereof and backed by the full faith and credit of the United States.

4.3 The obligation of the Undersigned to make any loan to be made by it hereunder, including the initial loan, is subject to the further conditions precedent that:

(a) No event of default within the meaning of section 6 of this Loan Agreement, and no other default with respect to any of the Notes, shall have occurred;

(b) The Undersigned shall have received a Note or Notes payable to its order (or to the order of such other person or persons as the Undersigned may specify) in the amount of the particular loan, executed by the duly authorized representatives of the Borrower;

(c) The Undersigned shall have received the documentation specified in Exhibit A annexed hereto, executed by the duly authorized representatives of the Borrower; and

(d) All legal matters incident to the Guaranty and the transactions contemplated by this Loan Agreement shall be satisfactory to the counsel of the Undersigned.

SECTION 5. COVENANTS

The Borrower covenants and agrees that from and after the date of this Loan Agreement and so long as any amounts remain unpaid on account of the Notes or otherwise under this Loan Agreement:

(a) All payments on account of the principal of, and interest on, the Notes, commitment fees and other fees and expenses shall be made free and clear of, and without deduction for, any and all taxes, levies, imposts, duties, fees, charges, deductions, withholdings, restrictions or conditions of any nature whatsoever now or hereafter imposed, levied, collected or assessed with respect thereto by the Borrower of any central or local authority thereof or therein;

(b) Any claim which it may now or hereafter have against any person, corporation, firm or association or other entity (including without limitation, the United States, DOD, any Bank, any assignee of any Bank, and any supplier of the Defense items) in connection with any transaction, for any reason whatsoever, shall not affect the obligation of the Borrower to make the payments required to be made to the Undersigned under this Loan Agreement, or under the Notes, and shall not be used or asserted as a defense to the payment of such obligation or as a setoff, counterclaim, or deduction against such payments;

(c) It will pay any and all stamp taxes and other taxes of similar character, if any, now or hereafter in effect, imposed with respect to this Loan Agreement or the Notes (including, without limitation, any United States Interest Equalization Tax or similar future tax), and will save the holder of any Note harmless from any and all losses or liabilities with respect to or resulting from any delay or omission to pay such taxes.

(d) Any legal action or proceeding against it by the Undersigned with respect to this Loan Agreement or the Notes may be brought in the Superior Court of the District of Columbia or in the United States District Court for the District of Columbia or in the Courts of the Borrower, as the Undersigned may elect, and by execution and delivery of this Loan Agreement, the Borrower submits to each such jurisdiction. In the case of the Superior Court of the District of Columbia or of the United States District Court for the District of Columbia, the Borrower consents to the service of process out of said Courts by mailing copies of such process by registered United States mail, postage paid, to it at its address set forth in section 7.3 hereof; and

(e) All loans made hereunder shall be utilized solely for the procurement of the Defense items pursuant to Purchase Arrangements authorized by DOD.

SECTION 6. DEFAULTS

Upon the occurrence of any of the following events or default:

(a) If the Borrower fails for a period of ten (10) days to make any payment of principal of, or interest on, any Note or of any commitment fee hereunder, when due; or

(b) If any representation or warranty made by the Borrower herein or in any certificate furnished by the Borrower pursuant hereto, proves to be at any time incorrect in any material respect; or

(c) If the Borrower defaults in the performance of any other term, covenant or agreement contained in this Loan Agreement, and such default shall continue unremedied for thirty (30) days after written notice thereof shall have been given to the Borrower by the Undersigned;

then, and in any such event, the holder of any Note may declare immediately due and payable the unpaid principal of, and accrued interest on, all Notes held by such holder and such amounts shall become immediately due and payable without protest presentment, notice or other demand of any kind, all of which are hereby expressly waived by the Borrower, and the Undersigned may terminate its Commitment hereunder.

SECTION 7. MISCELLANEOUS

7.1 Upon the execution of this Loan Agreement, the Borrower shall pay to the Undersigned the aggregate sum of $______ in payment of the fee charged by DOD with respect to the Guaranty.

7.2 No failure to exercise and no delay in exercising on the part of the Undersigned, any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege preclude any other or further exercise thereof, or the exercise of any other power or right. The rights and remedies herein provided are cumulative and not exclusive of any rights or remedies provided in this Loan Agreement.

7.3 Except as otherwise provided in this Loan Agreement, all notices, requests or demands hereunder shall be deemed to have been given or made upon the mailing of the same by air mail, postage prepaid, or in the case of telegraphic notice, on delivery to the telegraph company, addressed in the case of the Borrower to the Embassy of Brazil, Attention: Brazilian Air Attache, 3006 Massachusetts Avenue NW., Washington, D.C. 20016 and in the case of the Undersigned to or to such other addresses as any party may from time to time hereafter designate in writing to the other.

7.4 This Loan Agreement and the Notes shall be construed and interpreted in accordance with the laws of the District of Columbia, United States of America, unless prior to the execution of this Loan Agreement and the Notes the parties hereto have by written stipulation agreed that the laws of another jurisdiction of the United States shall be applied.

7.5 This Loan Agreement shall be binding upon and inure to the benefit of the Borrower and the Undersigned and their respective successors and assigns, except that the Borrower may not assign its rights hereunder without the prior written consent of the Undersigned. All agreements, covenants, representations and warranties made herein shall survive the delivery of the Notes and the making of the loans hereunder.

7.6 This Loan Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but all the counterparts shall together constitute a single instrument. Exhibits A and B attached hereto are, by this reference, made a part of this Loan Agreement.

7.7 In case any one or more of the provisions contained in this Loan Agreement or in any of the Notes should be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and therein shall not in any way be affected or impaired thereby.

In witness whereof, the parties hereto have caused this Loan Agreement to be executed and sealed by their duly authorized officers and representatives on the day and year first above written.

___________________________ [Seal]

___________________________ [Seal]

EXHIBIT A

DISBURSEMENT PROCEDURES

The following procedures and conditions shall be complied with prior to each disbursement to be made by the Undersigned to the Borrower:

1. The designated representative of the Government of Brazil shall execute and deliver each request for disbursement to the Undersigned at its address set forth in section 7.3 of the foregoing Loan Agreement.

2. Each request shall be accompanied by a copy of the written communication from DOD authorizing the Borrower to enter into the Purchase Arrangement(s) pursuant to which the disbursement is requested.

3. Each request also shall be accompanied by a certification of the Borrower as follows:

"The Government of Brazil confirms that the proceeds of this disbursement will be applied entirely to the payment of amounts that have become properly due pursuant to the Purchase Arrangement(s) authorized by the Department of Defense of the United States of America in the attached written communication. This disbursement is requested by the Government of Brazil pursuant to the terms of the Loan Agreement of ________________ between the Government of Brazil and the Undersigned, and confirms that the said Purchase Arrangement(s) (was/were) authorized by the Department of Defense of the United States of America pursuant to the aforesaid Loan Agreement. The Government of Brazil further confirms that the Undersigned to which this certification is addressed is authorized to make this disbursement by crediting the amount thereof to Account Number ________, at such Bank, and that ________________, whose signature appears below, is (and, until further written notice, shall continue to be) authorized to draw upon such account on behalf of the Government of Brazil.

"Signature of the representative of the Government of ____________ who is authorized to draw upon its account:

"Government of________________

"By __________________________"
(Name and Title Typed)

EXHIBIT B

PROMISSORY NOTE

New York, N.Y. ________________
(Date)

U.S. $________

FOR VALUE RECEIVED, the undersigned, the Government of ______________, hereby promises to pay to the order of ________, or its assigns, the principal sum of ________ United States dollars (U.S. $________) as follows:

____
(Amounts) (Dates)

together with interest on any and all amounts remaining unpaid hereunder from time to time from the date hereof until this Note shall be paid in full, payable semi-annually on ________ and ________ of each year from the date hereof, commencing ________, 197__, at the rate of ____ percent (____%), per annum. Such interest shall be calculated using a 365-day factor, both principal and interest to be payable in immediately available funds in lawful money of the United States of America at the office of the payee at ____________, or at the principal place of business of the assignee. All payments made on account of the principal amount hereunder shall be endorsed by the payee, or its assigns, on the reverse side of this Note.

Whenever any payment to be made shall be due on a Saturday, Sunday, or a public holiday under the laws of the District of Columbia, such payment shall be made on the next succeeding business day, and such extension of time shall in such case be included in computing interest in connection with such payment, but excluded from the next interest period.

This note is one of the Notes referred to in the Loan Agreement dated _____________, 197__, between the Government of __________ and __________. It is entitled to the benefits of and may be prepaid on the terms and conditions specified in said Loan Agreement. Prepayments shall be applied to the installments hereof in the inverse order of their maturity.

All payments of principal of, and interest on, this Note are payable free and clear of, and without deduction for, any taxes, levies, imposts, duties, fees, charges, deductions, withholdings, restrictions or conditions of any nature whatsoever now or hereafter imposed, levied, collected or assessed with respect thereto by the Government of ___________ or any central or local authority thereof or therein.

Upon the occurrence of any event or default specified in said Loan Agreement, the entire unpaid principal hereof and interest hereon to the date of payment may be declared to be forthwith due and payable as provided in said Loan Agreement. The Government of ____________ promises to pay all out-of-pocket costs and expenses (including the reasonable fees and out-of-pocket expenses of counsel) in connection with collection after default of this Note.

GOVERNMENT OF

By ____________________ [Seal]
(Name and Title Typed)

EXHIBIT C

PRINCIPAL REPAYMENT SCHEDULE

The First $2,000,000 of Disbursements are Repayable on 31 May 1975.

The Next $2,000,000 of Disbursements are Repayable on 31 May 1976.

The Next $2,000,000 of Disbursements are Repayable on 31 May 1977.

The Next $2,250,000 of Disbursements are Repayable on 31 May 1978.

The Next $2,250,000 of Disbursements are Repayable on 31 May 1979.

The Next $2,250,000 of Disbursements are Repayable on 31 May 1980.

The Next $2,250,000 of Disbursements are Repayable on 31 May 1981.

GUARANTY AGREEMENT

THIS GUARANTY AGREEMENT, made and entered into on the ____________, (hereinafter called the "Guaranty"), between the ________________, doing business under the laws of ________________, (hereinafter called the "Lender(s)"), on the one part, and the Government of the United States of America (hereinafter called the "United States"), acting through the Department of Defense of the United States (hereinafter called "DOD"), on the other part;

WITNESSETH:

WHEREAS, the Government of __________ (hereinafter called the "Borrower") desires to purchase certain defense articles and defense services (hereinafter called "defense items") from United States sources; and

WHEREAS, the Lender(s) has entered into a Loan Agreement dated _____________, (hereinafter called the "Loan Agreement"), with the Borrower to provide for the extension of credit to the Borrower of up to U.S. $_______; and

WHEREAS, the Lender(s) Obligation under the Loan Agreement to make the initial loan thereunder is to be conditioned upon the issuance of a guaranty from the United States against all political and credit risks of nonpayment by the Borrower of its obligations under the Loan Agreement to pay the principal of and interest on all extensions of credit by the Lender(s) under the Loan Agreement; and

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WHEREAS, it is intended that each loan under the Loan Agreement will be repaid by the Borrower in seven (7) annual installments the first of which shall be due May 31, 1975, and the remaining six (6) installments shall be due and payable successively annually thereafter on May 31 of each year with interest payable semi-annually at the interest rate set forth in the Notes; and

WHEREAS, the aforesaid credit will be available only to finance the purchase of defense items from United States sources; and

WHEREAS, the Loan Agreement will provide for the issuance by the Borrower to the Lender(s) of promissory notes evidencing the loans made by the Lender(s) from time to time under the Loan Agreement (herein called the "Notes"); and

WHEREAS, the Loan Agreement by the Lender(s) will facilitate and will be in furtherance of the purposes of the Foreign Military Sales Act, Public Law 90–629, as amended (hereinafter called the "Act").

NOW THEREFORE, in consideration of the premises and of the mutual covenants hereinafter set forth, the parties hereto agree as follows:

ARTICLE I

The United States, acting through DOD, in consideration of the fee specified in Article IV of this Guaranty, and except as otherwise specified in this Guaranty Agreement, hereby unconditionally and irrevocably severally guarantees each Lender under the authority of Section 24 of the Act, the due and punctual payment in United States Dollars of all amounts payable by the Borrower as principal of all loans made by the Lender(s) under the Loan Agreement and as interest at the rate set forth in the Notes whether or not such obligations are evidenced by Notes. Any disbursement by the Lender(s) shall be considered for the purpose of this Guaranty, to be a loan made by such Lender(s) under the Loan Agreement if in fact the funds so disbursed are applied to the purchase of articles or services approved in writing by the Department of Defense for purchase by the Borrower under the Loan Agreement, or if such disbursement is made in accordance with the procedures to be specified in the Loan Agreement and the Lender(s) is in receipt of documents that on their face conform to such requirements and indicate that DOD has approved in writing the purchases by the Borrower for which the disbursement is requested.

This Guaranty is a guaranty of payment covering all political and credit risks of nonpayment, including any nonpayments arising out of any claim which the Borrower may now or hereafter have against any person, corporation, firm or association, or other entity (including, without limitation, the United States, the Lender(s) and any supplier of Defense Items) in connection with any transaction, for any reason whatsoever. This Guaranty shall inure to the benefit of and shall be enforceable severally by each of the Lender(s), its respective successors by operation of law, or its respective endorsees, assignees or transferees (the Lender(s) and any such successor by operation of law, endorsee, assignee or transferee being hereinafter individually sometimes called a "Beneficiary" and collectively the "Beneficiaries".) All provisions of this Guaranty shall be severally applicable to any Beneficiary acting in its own right in connection with the Notes, the Loan Agreement or this Guaranty.

The United States hereby waives diligence, demand, protest, presentment, and any requirement that any Beneficiary of this Guaranty exhaust any right or power to take any action against the Borrower and any notice of any kind whatsoever other than the demand for payment required to be given to DOD hereunder in the event of default on a payment due under the Notes.

The United States further agrees that any claim which it may now or hereafter have against any Beneficiary for any reason whatsoever shall not affect in any way the right of any other Beneficiary to receive full and prompt payment of any amount otherwise due under this Guaranty.

The full faith and credit of the United States is pledged to the performance of this Guaranty.

The United States represents and warrants that (a) it has full power, authority and legal right to execute, deliver and perform this Guaranty, (b) this Guaranty has been executed in acordance with and pursuant to the terms and provisions of the Act and DOD has not, in issuing this Guaranty, exceeded the maximum amount of guarantees authorized to be isued under the Act, (c) this Guaranty has been duly executed and delivered by a duly authorized-representative of DOD, and (d) this Guaranty constitutes the valid and legally binding obligation of the United States, enforceable in accordance with the terms thereof.

ARTICLE II

Notwithstanding the provisions of Article I above, the maximum liability of DOD under this guaranty shall not exceed $____________.

ARTICLE III

Payment by DOD in the event of a default in the payment of any Note, or any portion thereof, by the Borrower shall be made promptly to the Beneficiary in New York Federal Reserve Funds at the address specified by the Beneficiary (which in the case of the Lender(s) shall be its address set forth opposite its signature below) upon demand to DOD by the Beneficiary after such default has continued for more than 15 days. The amount payable under this Guaranty shall be the amount of any principal and interest then in default, together with interest at the rate then applicable to the defaulted note from the date of default to the date of payment by DOD. No interest shall be payable by DOD for any period following 30 days after default if the Beneficiary fails to make such demand within 30 days after default. DOD reserves the right to make payments due to a Beneficiary from the Borrower whether or not demand to DOD by the Beneficiary therefore has been made. Upon payment by DOD to a Beneficiary, such Beneficiary will assign to the United States, without recourse to or warranty by such Beneficiary, the corresponding amount of such Beneficiary's rights to such payment from the Borrower.

ARTICLE IV

The Lender(s) shall communicate to DOD the date and amount of each disbursement made by the Lender(s) and the date and amount of each payment of principal and interest made by the Borrower under the Loan Agreement within thirty (30) days after each such disbursement and each such payment. Each such communication shall be sent to the Comptroller, Defense Security Assistance Agency, The Pentagon, Washington, D. C. 20301.

ARTICLE V

DOD acknowledges receipt from the Lender(s) of payment of a guaranty fee of $________.

ARTICLE VI

So long as this Guaranty Agreement is in effect and the United States is not in default hereunder, in the event of a default under the Loan Agreement in the payment of any Note, or any portion thereof, by the Borrower—

(a) The Lender(s) shall not accelerate or reschedule payment of the principal amount of or interest on any of the Notes except with the written approval of DoD; and

(b) The Lender(s) shall, if so directed by DOD, invoke the default provisions of the Loan Agreement, and shall suspend any further disbursements to, or on behalf of, the Borrower until the Lender(s) has been advised by DoD that it may resume payments under its Commitment.

ARTICLE VII

The Lender(s) will not agree to any material amendment of the Loan Agreement or consent to any material deviation from the provisions thereof without the prior written consent of DoD.

ARTICLE VIII

Any Beneficiary's rights under this Guaranty may be assigned to any individual, corporation, partnership, or other association doing business in the United States of America. In the event of such assignment DoD shall be promptly notified.

ARTICLE IX

Any notice, demand, request or the like on behalf of the United States hereunder will be effective for the purposes hereof if signed by the Director, or Deputy Director, Defense Security Assistance Agency, or their respective successors in office and delivered to the Lender(s) at its address set forth opposite its signature below. Any notice, demand, request or the like on behalf of any Beneficiary of this Guaranty will be effective for the purposes hereof if signed by an authorized official of any such Beneficiary and delivered to the Director, Defense Security Assistance Agency.

IN WITNESS WHEREOF, the parties hereto have caused this Guaranty to be duly executed and sealed on the date first mentioned above.

Address:

By _______________________ [Seal]

Government of the United States of America Acting through the Department of Defense

By _______________________ [Seal]

[FR Doc.73-19328 Filed 9-11-73;8:45 am]

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

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FOR IMMEDIATE RELEASE September 13, 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 September 25, 1973 , in the amount of $1,800,510,000. The bills of this series will be dated September 25, 1973 , and will mature September 24, 1974 (CUSIP No. 912793 TX4).

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, September 19, 1973. Tenders will not be received at the Treasury Department, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own 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 September 25, 1973 , in cash or other immediately available funds or in a like face amount of Treasury bills maturing September 25, 1973 . Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder must include in his income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

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

a

PRESS CONFERENCE OF
SECRETARY OF THE TREASURY GEORGE P. SHULTZ
AMERICAN CENTER
TOKYO, JAPAN
SEPTEMBER 14, 1973

QUESTION: What is your itinerary from here?

SECRETARY SHULTZ: I'm going back to the United States for only a few days and go on to Nairobi, and from there to the Soviet Union and to Germany and to Yugoslavia and back to Washington, if I'm still in one piece.

QUESTION: What is the purpose of two trips to the Soviet Union?

SECRETARY SHULTZ: Well, it's only one.

QUESTION: I thought the previous answer said U.S., Nairobi, Soviet Union, Germany, Yugoslavia and the Soviet Union.

SECRETARY SHULTZ: No, No, No, and home, which is saying Washington. (Laughter)

QUESTION: By Christmas? (Laughter)

QUESTION: You said in your address at the GATT general meeting here that the type of bill that Congress would write on trade for President Nixon depended in part on resolution of certain economic controversies the United States has with other countries. Could you enumerate some of the controversies and disputes that we are now seeking settlement?

SECRETARY SHULTZ: I'll ask Ambassador Eberle to specify particular items to the extent that he feels that's a good thing to do since we are in the process of negotiations. But, in general, of course, the problem is that we now do have trading rules that provide for adjustments of the rules as conditions change, and the conditions have changed in a number of respects, the most clear example being the formation of the common market itself, and its enlargement, and so in the light of that we have sought adjustment. Now, we are talking about a trade bill that will provide the United States negotiators with authority to develop a new set of arrangements, and before Congress considers that bill certainly they want to look and see how well are we able to work with our trading partners to settle disputes that are the product of past events. So that's the connection, and I know that that is on the minds of the Congress because they have raised it, and I believe when Ambassador Eberle testified before the Ways and Means Committee, if I am not mistaken, Bill, they gave you a considerable workout on that subject, so that it has been very much in the forefront. Would you like to say anything about the particulars or not?

AMBASSADOR EBERLE: Specifically the kinds of things we were talking about are how well does this conference kick off the political support for the future trading negotiations, and we think it is moving well.

Secondly, the enlargement negotiations with the European Community. Specifically, we are in discussion of a whole range of issues, and we think this kind of a settlement would encourage Congress that we can work with our partners.

The EFTA Agreement with the European Community has a problem on the rules of origin.

And, lastly, I think there are a number of areas where we have been able to settle long standing trade issues on quotas, etc., with our trading partners, such as Japan, France, Italy and England over the last few months, and there are a number of these that we hope we can continue to settle in the coming months. It is these kinds of issues that we will continue to work on.

QUESTION: Mr. Secretary, have your bilateral talks with Japanese officials given you any reason to believe that in the future it might be easier for American companies to do business here in Japan? In the past there have been so many false alarms raised.

SECRETARY SHULTZ: The discussions have been uniformly cordial and realistic, and I think those two characteristics give the basis for movement on what problems are identified. There is, I observe, a great consciousness of the importance of having relatively balanced trade and payments relationships, and I think a considerable feeling of satisfaction on our side and on the part of the Japanese officials that in recent months we have seen improvements, and we have emphasized the importance of keeping that going, and particularly of the point that you have made of being receptive to the imports of our products as well as the products of others, and people accept that point. The point is made in return, to some extent, that American companies have not been as oriented to exports as they might and they don't adapt and market their products aggressively. I believe there is some merit to that point, and so the President has called a conference, a White House Conference on Export Promotion, for I believe October 11, and the large exporters will be present. This will be a conference not simply to exhort people but also to identify problems that are of a specific nature that we may be able to do something about and stimulate the drive to export in American terms. But the consciousness of the Japanese government officials I talked to on this point was present, and I might say that no one that I saw has a better appreciation of the subject than the Prime Minister himself who talked at some length about it.

QUESTION: Mr. Secretary, on this same point, the bilateral trade balance between the United States and Japan, by the estimate of Administration officials it is probably going to come out about somewhere between two and two and a half billion dollars in favor of the Japanese. That's a reduction of around half from the previous year. Would a performance of that nature be satisfactory to the United States for the following year and on a long-term basis, and if not what should the target be?

SECRETARY SHULTZ: The target should be thought of primarily in global terms so that we should have a rough balance in our payments over a period of years, but probably for, or undoubtedly for some immediate period a substantial surplus because we have had a long time of deficit, and in a sense we have to pay back that debt. So we should have an interim target on a global basis of a substantial surplus in U.S. payments, and then as proposition in a sort of a steady state we should aspire to have all countries' balance of payments more or less in equilibrium, and that is the objective of the adjustment process we have talked about so much in the area of monetary reform.

Now, against that background, when you have a situation where there is an extraordinary imbalance between two countries, then that certainly suggests that you should not simply talk about the global picture, but you ought to concentrate on the problem between those two countries, and we have been, and our friends in Japan have been, and I think we have to get that extraordinary imbalance under control so that it is compatible with the kind of global picture that I mentioned.

Just what the results will be this year remains to be seen. We certainly have seen improvements in the first six months as we have examined the data, but for many years now people have been saying at the beginning of each year very confidently that by the end of the year all this will look different, and then it never does. It looks as though it might this time, but our attitude is that we should press on with all the things we can think of that will be helpful in keeping this situation moving, and when we are in a position to look back and say "thingshave happened" is when we should feel that we have really made some progress.

QUESTION: Mr. Secretary, if I may turn to domestic economic policy, Mr. Laird gave a press conference in Washington in which he indicated that the Administration was now moving toward adoption of Arthur Burns' idea of some refundable surtax as a means of fighting inflation, and in the first reactions to this some fear was expressed that by the time this surtax becomes effective its inflationary effects will be very, very sharp at a time when American economy will be no longer needing it. I was wondering, first of all, how far this idea has now progressed in the Adminstration, and whether you could address yourself to this fear that has been expressed in the first reactions.

SECRETARY SHULTZ: I haven't been in Washington this week, I have been here so just what all the discussion has been I don't know. When I left Washington the President's policy was to hold down spending and not increase taxes and to achieve a balanced budget by that means, and this with the feeling that the right fiscal policy is a balanced budget right now.

The subject of the variable investment tax credit has come up many times. Dr. Burns has raised it and raised it and raised it over the months. There are many questions to be raised about it. One is the one you raised. By the time we have a tax increase of some sort it may be that that is not what we are looking for. It takes a long time to have a tax

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increase go through the Congress.

A second question is whether or not this is the most responsive countercyclical device in the tax system that one could design if that is what your objective is.

I think a third question is whether or not there is any disposition in the Congress to do anything about it, and I have heard Chairman Mills say to me, to the President, to many other people, that he opposed it, and I once sat in a session of the Ways and Means Committee when the subject was brought up and there was very little support for it there. So it doesn't sound like an idea whose time has come, but maybe things have changed in the last week.

I do think that it is important to have an economic policy and do the best you can with it and then stick with it and not keep sharp shooting it week after week after week, and on an idea that is advanced and is discussed and is considered and doesn't work out, well, all right, why not let that alone for a while and go on to something else.

Now, I don't know about Mr. Laird's press conference. He always gives press conferences on economic subjects when I'm away. (Laughter) He did this to me when I was in Paris trying to negotiate monetary rearrangements and sounded off about the exchange values of the dollar, and here I am in Tokyo and he sounded off about taxes, so you had better ask him. (Laughter). I feel a little bit like the Minister from the common market who spoke yesterday about this great discussion of the trade and monetary link and how interrelated they are, and he went at some length to agree with the position taken, and then he wound up by saying in effect the Finance Ministers can keep their cotten-picking hands off these trade negotiations, and I think the President's Advisor on Domestic Affairs can keep his cotten-picking hands off the economic policy for a change. (Laughter).

QUESTION: I would like to ask a question that I think only Secretary Shultz can answer. This concerns your balance of payments improvement outlook and its relationship with monetary reform. Mr. Giscard D'Estaing was saying, I believe, that for the U.S. balance of payments improvements, Mr. Giscard D'Estaing said that real negotiations cannot be done until about March because the U.S. balance of payments outlook will not be improved until about such time, and he suggested that the U.S. should wipe off this deficit syndrome if we are to have an equal and productive discussion. May I ask your view of the outlook for improvement of U.S. balance of payments in relation to the outlook for monetary reform, and when do you specifically think that monetary reform talks will get on the track?

SECRETARY SHULTZ: First, let me say about my friend Valery Giscard D'Estaing that I have been working with him now for some time and I find him to be a person of extraordinary intellect and great character and warmth and humor, and I have enjoyed the process of dealing with him. I have the highest regard for him. I find it a good policy not to comment on things that are said to have been said by somebody not that the quotation isn't accurate but sometimes it gets all mixed up, and so rather than presume the comment on whatever he may have said let me just make a comment on the subject of U.S. balance of payments and the importance of dealing with the deficit in the U.S. balance of payments, on the one hand, and then, on the other, I think you wanted some discussion of the timetable for monetary reform? Was that the timetable that you are looking for, or was it the GATT negotiations, or which? I wasn't quite sure.

QUESTION: Timetable for monetary reform.

SECRETARY SHULTZ: For monetary reform. First, on the U.S. balance of payments, of course we have been pointing out and saying for some time that there was an extraordinary imbalance, that it was the result of an overvalued dollar, on the one hand, and trade arrangements that are essentially developed out of an error when the U.S. was the dominant economic power and which were no longer appropriate now that the European Community had resurrected itself after World War II and Japan had rebuilt, etc., and so there needed to be changes in order to bring about a balance. We find that our friends abroad have, on the one hand, been fond of pointing out to us the importance of stopping the U.S. deficit, and at the same time when we have said "Yes, we agree with you," and now in order to do that we have to have a change in exchange values and we have to get rid of some of these barriers to the importation of U.S. goods, they say "No, we don't want to do that: that's not right." But gradually as this discussion has gone on changes have been made. There have been big changes in exchange values that are more realistic, and we have made progress, as Ambassador Eberle has said, in various respects on the trade side, and we are seeking the results of it in balance of payments figures and we welcome that. I think that it is a reasonable probability that we will have a rough balance in our trade account this year. I think the investment account looks fairly good. I have talked with a number of people who have traveled abroad this summer in the great American wave of tourism, and from their comments about how great it is to be back in the United States where prices are low, I have the feeling they may stay home next summer. That will be good for our tourism account. In the meantime we are seeing a lot more faces of our friends from abroad in the United States, which we welcome, so we are getting some balance on that.

In other words, progress is being made. It is important to make progress, but we need to continue to work on it because we have had this long period of imbalance essentially resulting from an effort on the part of the United States to provide an umbrella, an economic umbrella, under which other countries that were devastated during the war could recover and become healthy. That is now the case, and so this situation needs to be rearranged and that is what is going on. So that's the first part that should be taken up.

As far as the schedule is concerned, in Nairobi we will be able to make a report, I feel sure, of reasonable progress, but we will be a long way from an overall settlement of the reformed international monetary system. On the other hand, there is now some momentum in the situation. The basic analytical and staff work has been done, and done quite well, and there is some momentum and political will in the picture, and so I think as we go on from Nairobi we will see further progress. Many have stated their estimate that we should be able to have some kind of an agreed set of principles ready by sometime next spring, and I think there is a reasonable probability that that can be done. That would make it possible, then, to include some lawyers in the discussions and see if we couldn't draft up in a more technical sense articles of agreement available for the next annual meeting. I think that is a possible set of developments, and of course no one can say for sure whether or not it will actually turn out that way. But there is quite a lot of sentiment that it might.

QUESTION: Mr. Eberle, I think it was Mr. Malmgren that said as far as the United States was concerned that most of the so-called corridor talk that has gone on during this conference has centered on the question of getting these compensatory concessions -- you want to call them that -- from the EC as a result of the enlargement. Has there been any substantial progress made here in Tokyo in these back-level or behind-the-scenes consultations on this question?

AMBASSADOR EBERLE: I don't like to comment on what other people said, like the Secretary commented, so I'll call on Ambassador Malmgren.

AMBASSADOR MALMGREN: What I said was that among other things that this topic had been covered. I did not say it was the main topic of conversation at all, and I think it is fair to say that I also said it is not surprising that when Ministers meet that they cover all of the outstanding issues one way or the other, either in touching on them or in discussing them in depth. This is a natural practice. In this case the subject has been covered to give a feeling both ways of the difficulties and the possibilities, and the Community is in discussion on this at the present time and will be discussing it within itself throughout the month of September, and we would expect that in early October the Community would be talking to the United States, Japan, Australia, Canada and others. It is not just a U.S. issue. It is a multilateral issue involving a number of countries, and that is about the kind of timetable we expect. It is going well, as Ambassador Eberle said. In the past, the progress to date has been very helpful, and we are hopeful about a good solution.

QUESTION: Mr. Secretary, could you tell us, Sir, how you would rate these GATT talks in terms of accomplishment, what you feel has been done or what has not been done that you anticipated before you came.

SECRETARY SHULTZ: I would give these GATT talks A-Plus, thinking back to my professorial days. That is, this meeting was intended to begin and so a successful beginning is being made. A document is being adopted, that is a charter for

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negotiations. Various problems have come up. It seems they are in the process of being solved or have been solved, and I think there is every probability that the Tokyo Declaration will be adopted and that it will be adopted with good spirit, and what more can you expect from an opening meeting? Nothing. I think it has gone very well.

Let me add one more point. I might say that the Japanese officials have been extremely instrumental in bringing about this result. Their efforts on points in dispute go back some time and I know that for example before the last meeting of the Deputies of the C-20, sort of through that meeting and into that setting some progress and efforts were made to deal with the trade and monetary question, and I think that helped to get the discussion into a good stage. And then the arrangements have been very good here, and the hospitality has been warm, and it does mean a great deal to a meeting of this kind to have that meeting chaired by such an eminent person as Minister Ohira and to be addressed by the Prime Minister who was himself instrumental, I guess around two years ago, in working with various people, on the idea that multilateral negotiations should take place, and then coming and addressing the conference. So all of this tends to give a sense of importance and push that helps an effort like this succeed.

QUESTION: Mr. Secretary, based on this meeting, could you sort of give an assessment on the forthcoming negotiations. Will the United States get from them what it wants?

SECRETARY SHULTZ: We hope and expect that the United States will get from these negotiations what it wants, and we hope and expect that others will, too,and that's the whole secret of success of trade and monetary negotiations. You are talking about an area - trade - where voluntary exchange by definition means that both parties gain. So this is a subject matter whereby the incentives to work things out are great because it is a setting where everybody can gain. It is not a question of winners and losers. It is a question of everybody having an opportunity to improve themselves. That being the case, of course we have all sorts of particular objectives in mind and we will negotiate hard for them, but I think the general nature of the subject is such that we can feel that we will achieve our objectives, and of course as a negotiating proposition we intend to bargain hard on the United States side. We have a bargaining team to great stature and experience, and Ambassador Eberle and his colleagues, particularly Ambassador Malmgren, both of whom are here, have distinguished themselves again in the forum here this week.

QUESTION: Mr. Secretary, many Americans may not be familiar with the intricacies of economic policy. They may not know what a countercyclical device is. But in plain terms they do know, for example, that recently the prices at the supermarket have simple gone through the roof. Is there any serious reason to hope that soon, in the next few months,this constant increase in prices might come to an end?

SECRETARY SHULTZ: Well, you weren't around yesterday when I went through this. Do you have that piece of paper that I used yesterday on the prices? That was all intramural discussion so you don't have to worry about it. Our principal economic problem right now is inflation. We seek to solve it by increasing the supplies of things where prices have been going up rapidly, by employing an appropriate fiscal and monetary policy, and by getting as much mileage as we can from wage and price controls while these more basic policies take hold. We increased acreage tremendously, as one example, beginning late in 1972. We are now seeing the results of that policy in very large crops, and the prospect of those crops is having its impact on prices. Prices of many commodities at wholesale are now very far below their mid-summer peaks, and we can get a list of that, but soybeans, for example, which got up to way over $12 are now about $6. So that's a big change in price, and you can go down the list -- corn, cattle, hogs, poultry -- the only commodity that has stayed relatively high is wheat. So there has been success so far in that, and of course we watch these from day to day.

Now, the objective of course is to deal with the problem of inflation, cooling the economy off somewhat, but only to the point where its rate of growth lowers a little bit to what we consider sustainable in the long run. So it is important to cool the economy. It's also important to keep your nerve about you and not overdo it, and of course there are people who get so wild about the subject of inflation that they might.

take actions that would be too extreme in the other direction.

QUESTION: You suggested that in short-term you would like to gain a substantial surplus, or an improvement rather, in balance in order to pay back, as you said, the past deficit. Now, depending on one's interpretation, your utterance of this need may very well constitute a third Nixon shock, or it might even be the first Shultz shock (Laughter), so I would like to ask the question in clarification. By about what time, in terms of time schedule, and to what extent would you like to see the surplus in your trade with Japan, and how, in what particular way, do you seek to gain such surplus -- by trade alone or by the overall basic balance of payments, including investments, or if both, in what kind of mixtures?

SECRETARY SHULTZ: I think the overall point needs to be in the terms of the balance of payments, the overall flows, and this is what I think gives the discussions of a monetary reform special importance. What I said on this subject is nothing new at all. It is only repeating what has been said by various U.S. representatives for quite some period now, and if you will think about it this way for a moment, what is also being said by all our trading partners. But they phrase it in terms of the problem of the dollar overhang and what to do about the dollar overhang, and how to somehow milk it out so that it doesn't constitute a potentially destabilizing force in monetary arrangements. So I think, broadly speaking, there is general agreement that somehow or other that problem has to be solved, and we believe that the solution must include a strong balance of payments position for the United States for a while as this problem is being dealt with. Otherwise, it simply will keep on raveling, and there is no amount of consolidation that will work otherwise.

QUESTION: It has been said that one characteristic of this GATT Ministerial Conference is that the voice, the political voice, of the LDCS has been very strong here, and it has been said that this voice has become so strong that neither China nor the Soviet Union would not much longer be able to ignore it. And it has been particularly said that in the area of agricultural products the demand for market organization or international control or regulation, if you would, has become very much strong, so that China or the Soviet Union would not be able to ignore the existence of the role of GATT much further. My question then is, what is your evaluation or assessment of these alleged statements or these sayings that China and the Soviet Union would not be able to ignore GATT. And, secondly, should either of these countries decide to come into contact with GATT, or otherwise would express interest in GATT. What would be the U.S. response or response of your own? What is your view and the U.S. view?

SECRETARY SHULTZ: Well, I haven't heard the statements that you refer to, but I think the oviet Union and China are obviously moving to increase the amount of trade that they have with the more market-based economies, and we see that largely on a bilateral basis. To the extent that it is bilateral it doesn't in a sense interact with the monetary system which essentially is there in order to facilitate multilateral trade. That is the reason why you have a monetary system. Nor does it interact with the GATT rules, particularly because it is just a matter of a barter between two countries on particular deals.

Now, as any country trades, if it senses that it has more to gain from a multilateral structure of trade than bilateral, one country at a time, then of course that will bring an interaction between the monetary and trading rules that are set up for multilateral transactions. I think one of the aspects of both of these negotiations that we should bear in mind is how to so structure them to make it as easy as possible for, or certainly not to build in obstacles against, and interaction of these multilateral arrangements with countries that are not now a part of them. Whether that will ever come about I don't know, and I wouldn't try to make a forecast about it. But it is a question that a number of us have discussed, and I think the answer is of course to try to design rules that will work for the people who are immediately involved, but at the same time to have in mind that there are others who are becoming more interested in trade with us, and we should design the systems so that they will not frustrate good developments of these trading relationships.

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FOR RELEASE ON DELIVERY

STATEMENT BY THE HONORABLE PAUL A. VOLCKER
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
BEFORE THE
HOUSE COMMITTEE ON APPROPRIATIONS
FRIDAY, SEPTEMBER 14, 1973, at 10:00 A.M. (EDT)

Mr. Chairman and Members of the Committee:

I welcome this opportunity to appear before the House Appropriations Committee to explain the effect of the 10-percent devaluation in par value of the dollar on United States assets and liabilities, as well as the need for an appropriation to meet certain of these liabilities. Congress has now enacted the Par Value legislation authorizing the devaluation. The appropriation request now before you is the remaining piece of legislation to complete essential Congressional action on the devaluation.

As you know, the devaluation of the dollar was proposed in February as part of an understanding with major trading partners to achieve a needed realignment of exchange rates. Although we have not formally devalued the dollar in the sense of official notification to the IMF, the realignment became immediately effective in the exchange markets. While much has happened since February, I believe time and events have confirmed the need for and wisdom of that realignment. Indeed, a noticeable improvement in our trade position in recent months and in the outlook for our balance of payments can in part be traced to this action.

Some turbulence in exchange markets has developed from time to time since February, and there have been, on balance, some further changes in market exchange rates of the dollar against certain other currencies. However, as our basic payments position improves -- and it is now improving -- greater strength and stability can be anticipated. Needed improvement in the competitive position in world markets of American labor and American business has been achieved through the exchange rate realignment. The main challenge now is to maintain those policies at home essential to productivity and restoration of price stability.

Your Committee is immediately concerned with certain of the financial consequences that flow directly from the devaluation. The details of the changes in assets and liabilities are quite complex. I believe it would be helpful in understanding this subject if you would follow the tables attached to my testimony as I proceed.

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

Increase in Value of Assets

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

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

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

(b) subscriptions to the international financial institutions.

First, the effect on our international reserve assets.

Gold

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

Special Drawing Rights

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

IMF Gold Tranche

Our remaining gold tranche automatic drawing rights on the International Monetary Fund, which represents gold which we have paid to the Fund, increases by $52 million to a total of $469 million. These are automatic rights to draw currencies from the IMF when needed to finance a balance of payments deficit. As of the present, we have utilized $1.4 billion of these drawing rights and to that extent, we gain no additional asset.

IMF Subscription and Paid-in Capital Subscriptions

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

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

Increase in Liabilities

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

-- liabilities resulting from borrowing of foreign currencies and foreign exchange operations;

-- increase in repayment obligations resulting from IMF drawings and SDR allocations; and

-- maintenance of value obligations in the international financial institutions.

Some of these liabilities will be financed from Federal Reserve resources and from the Exchange Stabilization Fund without need of appropriations. The remainder -- our increased payment obligations to the international financial institutions -- will require an appropriation of up to $2.25 billion. However, of this new obligational authority, only $477 million will result in budgetary expenditures. I would now like to give you some of the details on each of these liability items.

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

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

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

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

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

Liabilities Requiring Appropriations

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

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

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As you can see, all of these liabilities are to the international financial institutions. They derive from a provision in their Articles of Agreement requiring member countries to maintain the value of their subscriptions in terms of a common denominator, in this case gold. In other words, a member that devalues its currency must pay in additional amounts of that currency in order to maintain the same gold value, and thus the same proportionate contributions in terms of a common standard, as existed prior to devaluation. In the past, there have been over 200 devaluations involving 60 countries. In every case, maintenance of value obligations have been fulfilled. The amount involved over time has exceeded $10 billion.

Liability to IMF

The first type of liability -- maintenance of value on International Monetary Fund holdings of dollars -- has two components. First, the IMF Articles require us to increase the value of the dollar portion of our subscription amounting to $5.5 billion by 11.1 percent, or $606 million. In addition, the United States has paid $1.4 billion to the Fund as a result of drawings of foreign currencies. This sum must also be maintained in value by the same percentage resulting in a payment of $150 million.

Thus, total payments to the Fund will amount to $756 million. This obligation -- to be reflected in the form of a letter of credit -- will have no budgetary impact. U.S. transactions with the Fund are excluded from the budget in accordance with a recommendation of the President's

Commission on Budget Concepts which pointed out that subscriptions, drawings and other transactions with the Fund were monetary exchanges of assets. Our subscription is akin to a deposit in a bank that can be used by the bank for lending to others and also to establish a line of credit for the depositor -- in this case the United States. As I indicated earlier, this liability is essentially offset by the increased asset value of our subscription.

Contingent Obligations to Development Banks

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

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

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

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

Paid-in Capital

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

It is only this $477 million that will result in budgetary expenditures. There will be only $12 million of expenditures in fiscal year 1974, and the remaining amounts will be spread out in relatively small installments over a period of 12 years.

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

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

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

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

As I mentioned earlier in my testimony, the legislation to authorize a change in the par value of the dollar has now become law. Our actual notification of a par value change has, for various reasons, been long delayed since the announcement of the proposed change on February 12, 1973. Our delay has complicated the accounts and transactions of the international financial institutions and has raised the possibility of substantial financial losses for them because we have not incurred the maintenance of value obligation that we otherwise would have sustained. Prompt Congressional action would be most helpful in avoiding doubts about our willingness to abide by international financial rules applicable to all countries equally.

Attachments

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Summary Table

Financial Effects of U.S. Devaluation

		$ Millions
I.	On U.S. Financial Statements	
	A. Increase in Assets	2518
	B. Increase in Liabilities	1900
	C. Net Increase in Assets	618
II.	On Records of Contingent Liabilities	
	Increase in Obligation to Make Additional Capital Subscription to the International Lending Institutions, if called	992
III.	On Maximum Appropriation Required	2,225
IV.	On Forecast Budgetary Expenditures	
	FY 1974	12
	FY 1975-1985	40 per annum

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

I On U.S. Financial Statements	**$ Millions**		**Accruing to:**
A. Increase in Assets			
1. Increase in Value of Reserves			
Gold	1,165		Treasury General Fund
Special Drawing Rights (SDR)....	218		Exchange Stabilizatio
Gold Tranche Automatic IMF Drawing Rights................	52		Treasury General Fund
2. Increase in Value of U.S. Currency Subscriptions in the International Monetary Fund (IMF)......................	606		Treasury General Fund
3. Increase in Value of U.S. Participation in Capital of International Lending Institutions...................	477		
Total Assets		2,518	Treasury General Fund
B. Increase in Liabilities			**Financed from:**
1. Treasury Debt in Foreign Currencies......................	193		Exchange Stabilizatio
2. Federal Reserve Obligations in Foreign Currencies..............	196		Federal Reserve Resou
3. Increase in Repayment of Obligations to IMF			
For Currency Drawings........	150		Appropriations or Exchange of Assets
For SDR Allocations..........	278		Exchange Stabilizatio
4. Required Additional Subscription to the IMF......................	606		Appropriations or Exchange of Assets
5. Obligation for Additional Capital Subscription to International Lending Institutions............	477		Appropriations
Total Liabilities		1,900	
C. Net Increase in Assets		618	
II. On Records of Contingent Obligations			**Financed from:**
Increase in Obligation to make Additional Capital Subscription to the International Lending Institutions, if called..............		992	Appropriations
III. On Maximum Appropriation required		2,225	
IV. On Forecast Cash Expenditures			
FY 1974...............................		12	
FY 1975-1985..........................		40 per annum	

Notes to Table: "Financial Effects of U.S. Devaluation"

I. On U.S. Financial Statement

A. Increase in Assets -- Devaluation will result in increases in the dollar value of three types of assets: (1) reserve assets, (2) currency subscriptions in the International Monetary Fund, and (3) paid-in capital subscription to the international development lending institutions. The total increase in all three classes is $2,518 million.

1. Reserve Assets

Gold -- United States holdings now total $10,487 million. After devaluation the value of these holdings in current dollars will increase by 11.11% or $1,165 million. The increment in value of gold will result in a direct cash inflow into the Treasury of $1,165 million as gold certificates equivalent to the increase in gold value are issued to Federal Reserve banks. However, under unified budgetary accounting concepts, this increment in value will not be considered a budgetary receipt.

Special Drawing Rights (SDR) -- SDR's are an international reserve asset that are created by the IMF and allocated among members. These assets have a gold value and United States holdings now totalling $1,958 million will increase by 11.11% or $218 million.

Gold Tranche -- The gold tranche is the amount of our automatic regular drawing rights on the International Monetary Fund. These rights can be used by the United States to purchase or draw foreign currencies from the Fund to meet a balance of payments need. These rights, which are included in U.S. reserves, now total $469 million. They represent gold paid to the Fund in partial fulfillment of U.S. subscription obligations and will increase in value by 11.11% or $52 million.

2. Increase in value of our currency subscriptions in the International Monetary Fund

Seventy-five percent of our subscription to the IMF was paid in United States dollars but this subscription of $5,456 million was denominated on the books of the Fund in dollars of a fixed weight and fineness of gold. Thus, the value of this subscription will increase in terms of current dollars after devaluation to a total of $6,062 million -- an increase of $606 million. This increase in value allows us to increase our drawing rights, maintain our share of voting rights and allocations of Special Drawing Rights.

3. Increase in Value of U.S. participation in Capital of Development Lending Institutions

Paid-in investments in the World Bank, the International Development Association, the Inter-American Development Bank and the Asian Development Bank are also denominated in dollars of a fixed weight and fineness of gold. United States investments in these institutions will increase in value by $477 million. The increase for the Inter-American Development Bank will be $233 million, for the World Bank -- $71 million, for the International Development Association -- $161 million, and for the Asian Development Bank -- $12 million.

B. Increase in Liabilities

1. Treasury Debt in Foreign Currencies

The Treasury had outstanding $1,714 million in foreign currency borrowings -- $306 million in German marks and $1.4 billion in Swiss francs. Repayment of these obligations at maturity under the new rates of exchange are estimated to result in approximately $193 million additional expenditure of dollars. The actual amount of loss will vary depending upon the market rates at which the currencies are obtained for repayment. The liability for meeting this additional cost is borne by the Exchange Stabilization Fund. Thus, no appropriation or budgetary expenditures are involved.

2. Federal Reserve Obligations under Swaps

The Federal Reserve had outstanding mutual deposit arrangements or so-called "swaps" with foreign central banks totalling $1,639 million. The cost of buying foreign currencies to repay these swap obligations is estimated to increase by about $196 million over what it would have been prior to devaluation. The actual amount of loss will vary depending upon the market rates at which the currencies are obtained for repayment. The Federal Reserve will bear this additional cost and no appropriation or budgetary expenditures are required.

3. Increase in Repayment Obligation to the IMF

-- For Currency Drawings

The United States now has a drawing outstanding, representing U.S. purchases of foreign exchange from the International Monetary Fund in the amount of $1.4 billion. The International Monetary Fund Articles of Agreement require the United States to maintain the value of these dollars held by the Fund in terms of gold. The payments required, in the form of a letter of credit, will amount to $150 million.

-- For SDR Allocations

Special Drawing Rights allocated to the United States are also denominated in terms of gold. The United States has been allocated a total of $2,491 million in Special Drawing Rights and should the SDR scheme ever be liquidated, the United States would incur an increased liability of $278 million.

4. Required Additional Subscriptions to the IMF

In addition to the currency drawing maintenance of value described under item 3 above, the United States has a maintenance of value obligation on its currency subscription in the Fund of $5,455 million. Under Fund rules, this currency subscription must be maintained in gold value requiring a payment of $606 million in the form of a letter of credit.

5. Obligations for Additional Capital Subscriptions to International Financial Institutions

The United States will incur an increased paid-in capital obligation to the international development institutions totalling $477 million. The amounts are: World Bank $71 million, Inter-American Bank $233 million, Asian Development Bank $12 million, and the International Development Association $161 million. These amounts will be financed from an appropriation requested of Congress.

This maintenance of value obligation stems from similar, but not identical, provisions in the agreements governing each of the international lending institutions providing that each member country that devalues its currency must maintain the value of its contributions as measured by a common yardstick, in this case gold. The purpose of this requirement is to assure that the contributions of all members are maintained in value in relation to each other despite changes in exchange rates. This provision has worked in favor of the United States by assuring that other countries that devalue their currencies do not diminish the value of their contributions. Thus, the burden-sharing principle is not adversely affected by currency devaluations. The maintenance of value provision also assures that our share in the assets and voting rights in these institutions is not impaired by our devaluation.

All other countries have fulfilled their maintenance of value obligations. In total, there have been over 200 par value modifications in the International Monetary Fund and in each case the country concerned has fulfilled its maintenance of value obligations in the international financial institutions. Moreover, most countries, especially the large industrial countries, have fulfilled these obligations promptly. For example, France devalued in 1957, 1958 and 1969. In the first instance, maintenance of value was made on the date of devaluation, in the second, two days after, and in the third, three days after. In the case of the United Kingdom's devaluation in 1967, maintenance of value was made 33 days after and in the case of Canada in 1962, 28 days after.

C. Net increase in Assets -- Increases in assets total about $2.5 billion; increases in liabilities total about $1,900 million; the result is a net increase in assets of about $618 million.

II. On Records of Contingent Obligations

Increase in Obligation to make Additional Capital Subscription to the IFI's, if called.

-- In the World Bank, the Inter-American Development Bank (IDB) and the Asian Development Bank (ADB), our subscription of callable or "guarantee" capital is denominated in dollars of a fixed weight and fineness, and the change in the par value of the dollar will mean an increase of 11.11% in our callable capital obligation. The U.S. callable capital obligation in the World Bank is $703 million, in the IDB it is $205 million, and in the ADB it is $12 million. The total increase in the current dollar amount of these callable capital subscriptions amounts to $920 million.

-- This callable capital is a highly contingent liability. It has never been called in the past and it is highly unlikely that these subscriptions will be called in the future, considering the size of already existing callable capital and the reserves which the international banks have built up. Therefore, no budgetary impact is anticipated. Nevertheless, funds must be available to meet these obligations if they are ever called, and an appropriation of $920 million will be requested.

-- Of the total maintenance of value for the IDB-FSO of $241 million, $72 million is a contingent liability representing loans that have been made in dollars but are repayable in either dollars or other currencies. If repaid in other currencies, and this is the most likely prospect, the United States will have no maintenance of value obligations on this sum.

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III. On Maximum Appropriation Required

Appropriations will be required for the paid-in capital subscriptions to the international lending institutions and for the callable capital subscriptions to these institutions. Payments to the International Monetary Fund can be handled as either an appropriation or as an exchange of assets. The maximum appropriations to be requested are as follows:

	($ millions)
paid-in capital	477
callable capital	992
IMF	756
	2,225

The maximum amounts for each institution are as follows:

[in millions of dollars]

	Callable	To be paid in
IBRD	703	71
IDA		161
IDB	277	233
ADB	12	12
subtotal	992	477
IMF	0	756
Total	992	1,233

These amounts are approximate. The exact amount of maintenance of value obligations can be determined only on the basis of holdings on the day of formal change in par value.

IV. On Forecast Budgetary Expenditure

Budgetary expenditures are expected in the near future only from a portion of the obligations for increased capital to the international lending institutions. In most cases these obligations will be met, at least initially, not by cash expenditures but rather by the issue of letters of credit, which do not constitute budget expenditures. All of the paid-in capital subscriptions will be paid in letters of credit except for the Asian Development Bank. In the case of that institution, one-half of the paid-in subscription is required to be paid in cash. Moreover, the letter of credit portion is expected to be drawn during fiscal year 1974. Thus, the full maintenance of value amount of $12 million is expected to be paid to the Asian Development Bank in cash during fiscal year 1974.

No draw-downs on the other letters of credit are expected in fiscal year 1974. It is expected that draw-downs will begin in fiscal year 1975 and will be spread out evenly over about an 11-year period resulting in draw-downs of $40 million per annum.

Estimated Budgetary Outlays for Maintenance of Value
Fiscal Years
$ Millions

1972 Devaluation

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

1973 Devaluation

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

Explanatory Note

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

February 23, 1973

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EASE PASS TREASURY, WHITE HOUSE, STR

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GS: OVIP, (SHULTZ, GEORGE)
BJECT: PUBLIC BROADCASTING INTERVIEW WITH SECRETARY SHULTZ

IN A PUBLIC BROADCASTING INTERVIEW BROADCAST TONIGHT, ULTZ, D'ESTAING, AND AICHI ANSWERED IDENTICAL QUESTIONS NSECUTIVELY. FOLLOWING ARE THE QUESTIONS AND TEXT OF ULTZ REPLIES:

OTE
E QUESTIONS ARE AS FOLLOWS: THE FIRST POINT IS WHAT IS YOUR SESSMENT OF THE SIGNIFICANCE OF THE GATT MINISTERIAL MEETING IN KYO? THE SECOND POINT I WOULD LIKE TO ASK IS THE PROBLEMS GARDING TARIFF REDUCTIONS AND SAFEGUARD CLAUSE OPERATIONS.

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THE THIRD QUESTION I WOULD LIKE TO ASK IS THE RELATIONSHIP BETWEEN MONEY AND TRADE.

WHAT IS YOUR ASSESSMENT OF THE SIGNIFICANCE OF THE TOKYO MEETING?

SHULTZ: THIS MEETING IN TOKYO IS A MATTER OF GREAT SIGNIFICANCE, I AM SURE, FOR NOT ONLY JAPAN BUT FOR ALL COUNTRIES. THE SIGNIFICANCE DERIVES FROM THE FACT THAT WE ALL GAIN FROM TRADE. IT IS OBVIOUS IF TWO PEOPLE EXCHANGE VOLUNTARILY, THEY MUST BOTH FEEL THEY GAIN. AND THE SAME THING IS TRUE FOR INDIVIDUALS IN DIFFERENT COUNTRIES AS IS TRUE FOR INDIVIDUALS WITHIN THE SAME COUNTRY. SO WE ARE HERE TO SEEK MORE OPEN TRADE, WE ARE HERE TO REDUCE THE BARRIERS TO TRADE WHETHER THEY BE TARIFF BARRIERS OR NON-TARIFF BARRIERS OF VARIOUS KINDS. IT IS, I THINK, A VERY CLEAR PROPOSITION THAT IN THE POST-WORLD WAR TWO PERIOD WE HAVE ALL GAINED TREMENDOUSLY BY THE GRADUAL OPENING UP OF TRADE, WE HAVE HAD A PERIOD OF GREAT PROSPERITY THROUGHOUT THE WORLD AND AT THE SAME TIME, A PERIOD OF GREAT GROWTH IN INTERNATIONAL TRADE. THESE TWO THINGS ARE CONNECTED WITH EACH OTHER JUST AS TOGETHER THEY HAVE BROUGHT HIGHER STANDARDS OF LIVING THROUGHOUT THE WORLD AND HAVE GIVEN US HIGHER REAL WAGES FOR WORKERS AND MANY BENEFITS FOR ALL OF OUR SOCIETIES. THE MEETING HERE WILL, I THINK, OPEN TRADE FURTHER AND AT THE SAME TIME AS DIFFICULTIES HAVE ARISEN WITH THE PRESENT TRADING ORDER, IT PROVIDES AN OPPORTUNITY TO DEAL WITH THOSE DIFFICULTIES AND BE SURE THAT WE TAKE ADVANTAGE IN EVERY WAY THAT WE CAN OF THE NATURAL ABILITY OF OUR COUNTRIES THROUGH TRADE WITH EACH OTHER TO GET MUTUAL IMPROVEMENTS.

MODERATOR: THEN WHAT ABOUT THE SECOND QUESTION ON TARIFF REDUCTION, WHAT METHOD IS PREFERABLE AND WHAT IS THE AMERICAN POSITION ON THE SAFEGUARD CLAUSE?

SHULTZ: WELL, I THINK, OF COURSE, AS WE LOOK AT THE TARIFF STRUCTURE IN EACH COUNTRY, WE HAVE TO START FROM WHERE WE ARE. WHERE WE ARE IN EACH COUNTRY REFLECTS THE CONDITIONS THAT ARE THERE AND IN OUR VARIOUS RESPECTIVE WAYS TRY TO REDUCE THESE BARRIERS AS MUCH AS WE CAN. I THINK THAT IT IS IMPORTANT ALSO, TO NOTICE AS WE SAW THIS MORNING IN THE VARIOUS STATEMENTS THAT WERE MADE, THE EMPHASIS BEING PLACED IN THESE NEGOTIATIONS ARE NON-TARIFF BARRIERS. IT ISN'T JUST A QUESTION IN OTHER

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WORDS OF REDUCING THE LEVEL OF TARIFFS, BUT ALSO REDUCING THE NUMBER OF BARRIERS THAT MAY HAVE NOTHING TO DO AT ALL WITH A TARIFF BUT SIMPLY BLOCK OR LIMIT DRASTICALLY THE AMOUNT OF IMPORTS THAT CAN COME INTO A COUNTRY OF A GIVEN CLASS OF GOODS. THAT IS A VERY IMPORTANT KIND OF RESTRICTION AND IN A WAY THE LOWER THE LEVEL OF TARIFFS, THE MORE IMPORTANT AND THE GREATER THE TENDENCY THERE SEEMS TO BE TO LOOK TO NON-TARIFF BARRIERS AS A WAY TO PROTECT THE INDUSTRY OF A GIVEN COUNTRY. I THINK IT IS VERY SIGNIFICANT, FIRST OF ALL, TO TRY TO REDUCE THE TARIFF BARRIERS THERE ARE, RECOGNIZING THAT THEY VARY FROM ONE COUNTRY TO ANOTHER AND AT THE SAME TIME, TO RECOGNIZE THAT THERE ARE MANY OTHER OBSTACLES TO TRADE THAT WE MUST WORK ON AND IT IS A MATTER OF IMPORTANCE HERE AND ITS HEARTENING TO ME IN LISTENING TO THE STATEMENTS MADE TO SEE THE RECOGNITION OF THE IMPORTANCE OF NON-TARIFF BARRIERS.

NOW, WHEN IT COMES TO THE QUESTION OF A SAFEGUARD SYSTEM, I THINK WE HAVE HERE A PROBLEM THAT HAS BEEN RECOGNIZED IN EVERY COUNTRY. I KNOW OF NO COUNTRY THAT HASN'T FACED THE PROBLEM OF A SURGE OF IMPORTS IN AN INDUSTRY THAT IS PARTICULARLY IMPORTANT IN A SECTION OF THAT COUNTRY OR TO THE COUNTRY AS A WHOLE AND HAD IN SOME MANNER OR ANOTHER TO DEAL WITH THAT SURGE OF IMPORTS. AND WHAT WE NEED IS SOME KIND OF SAFEGUARD SYSTEM NOT TIED TO QUOTAS AS I BELIEVE THE PRESENT GATT RULES ARE, BUT TIED TO THE NOTION THAT WHEN WE HAVE A SURGE OF IMPORTS THAT MAY BE DAMAGING IN A COUNTRY, WE DO NOT STOP THOSE IMPORTS. WE DO NOT EVEN STOP THE TENDENCY FOR THOSE IMPORTS TO INCREASE. BUT WE WILL PROVIDE A PERIOD IN WHICH THE PACE OF INCREASE IS MODERATED AND IT DOESN'T SORT OF HIT IN A GREAT SUDDEN FORCE IN A PARTICULAR PLACE OR IN A PARTICULAR INDUSTRY. SO WE HAVE THE NOTION OF SAFEGUARDING AGAINST THIS TREMENDOUS SURGE BY MODERATING THE PACE OF INCREASE, BUT ALSO OF SAYING THAT WE WILL PROVIDE THIS KIND OF SAFEGUARD FOR A LIMITED PERIOD OF TIME SO THAT IT DOESN'T GET BUILT IN AS A PERMANENT PROTECTION AGAINST THE GOOD THAT THESE IMPORTS CAN BRING TO THE COUNTRY THAT IS RECEIVING THEM AS WELL AS TO THE COUNTRY THAT IS PROVIDING THE EXPORTS. NOW, WE BELIEVE IN THE UNITED STATES AND I THINK THAT THIS IS TRUE THROUGHOUT THE WORLD THAT UNLESS SOMEHOW YOU CAN ASSURE THE WORKERS IN YOUR COUNTRY AND THE BUSINESSES IN

YOUR COUNTRY THAT THESE NEGOTIATIONS ARE NOT GOING TO RESULT IN

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THEIR SIMPLY GETTING WIPED OUT ALL OF A SUDDEN.
SHULTZ

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C O R R E C T E D C O P Y (SHUTO 15, VICE SHUTO 11)

BUT OCCASIONALLY, THERE ARE GROUPS THAT DO NOT GAIN, THAT GET HIT VERY HARD AND WE ARE THINKING OF YOU, TOO, AND WE ARE TRYING TO SAFEGUARD AGAINST TOO SUDDEN A RUSH OF IMPORTS AND GIVE A CHANCE FOR PEOPLE TO MAKE ADJUSTMENTS EITHER BY BECOMING COMPETITIVE AGAINST THOSE IMPORTS OR BY ADJUSTING THEMSELVES AND FINDING OTHER PURSUITS.

MODERATOR: THANK YOU MR. SECRETARY. THEN THE LAST QUESTION OF THE RELATIONSHIP BETWEEN MONEY AND TRADE.

SHULTZ: OF COURSE, MONEY PROBLEMS AND TRADE PROBLEMSARE CLOSELY LINKED TOGETHER. IF WE DID NOT HAVE INTERNATIONAL TRADE AND FLOWS OF INVESTMENTS ACROSS OUR BORDERS, WE WOUWD NOT HAVE AN INTERNATIONAL MONETARY SYSTEM WHOSE WHOLE PURPOSE IS TO HELP TRADE TO FLOURISH. SO THE TWO THINGS ARE LINKED THE PURPOSE OF THE MONETARY SYSTEM IS TO SUPPORT TRADE AND AT THE SAME TIME, AS THE MONETARY

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YSTEM ITSELF PRODUCES THE BASIS OF EXCHANGE AND REGULATES IT
HROUGH THE BALANCES OF TRADE AND PAYMENTS, WE SEE THAT SOMETIMES
HE STRUCTURE OF TRADE ARRANGEMENTS CAN AFFECT THE ABILITY OF
HE MONETARY SYSTEM TO MAKE THE PROPER ADJUSTMENTS POSSIBLE THAT
ILL CONTINUE TO LEAD TRADE TO FLOURISH. SO OUR OBSERVATION
ND OUR FEELING IS THAT THESE TWO MATTERS, TRADE MATTERS AND
ONETARY MATTERS, ARE CLOSELY INTER-MESHED AND I BELIEVE AS
I THINK OTHERS DO, TOO, THAT IT IS A GOOD THINK THAT BOTH OF
HESE QUESTIONS ARE BEING DISCUSSED SIMULTANEOUSLY. THEY NEED
O GO FORWARD WITH EACH NEGOTIATION IN VIEW. THERE ARE
NTERLOCKING ASPECTS OF EACH ONE AND AT THE SAME TIME, EACH
UBJECT HAS TO A DEGREE A LIFE OF ITS OWN AND A SET OF TECHNICAL
ETAILS OF ITS OWN AND WE WOULD HOPE THAT THE PACE OF BOTH CAN
O FORWARD PROPERLY, BUT IF WE ARE ABLE TO SETTLE THE ONE BEFORE
HE OTHER WE SHOULD MAKE THAT SETTLEMENT AND GO FORWARD WITH ALL
HE SPEED THAT WE CAN. END QUOTE--
HULTZ

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WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

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FOR IMMEDIATE RELEASE September 14, 1973

ROLAND H. COOK NAMED TO
NEW TREASURY DEBT MANAGEMENT POST

Treasury Secretary George P. Shultz today announced the appointment of Roland H. Cook to the new post of Assistant to the Special Assistant for Debt Management.

In his new position, Mr. Cook, 46, will oversee Treasury's coordination and review of Federal agency borrowing in the capital markets.

Mr. Cook joined the Treasury in 1951 as an economic analyst. From 1961 to 1967 he served as Assistant Secretary and Treasurer of the Federal National Mortgage Association (Fannie Mae). He rejoined the Treasury in 1967 and most recently was Associate Director of the Department's Office of Debt Analysis.

A native of Cortland, New York, and a graduate of Syracuse University, Mr. Cook is married to the former Barbara Brenzel, also of Cortland, New York. The Cooks have two children, Linda and Kathryn.

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FOR IMMEDIATE RELEASE Sept. 14, 1973

MEMORANDUM FOR THE PRESS:

Acting Secretary Simon has signed the attached order creating an "Office of Analysis and Special Studies of Natural Resources and Energy."

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DEPARTMENT OF THE TREASURY

TREASURY DEPARTMENT ORDER No. 226

Creation of Office of Analysis and Special Studies of Natural Resources and Energy

By virtue of the authority vested in the Secretary of the Treasury by Reorganization Plan No. 26 of 1950, there is hereby created in the Department of the Treasury an Office of Analysis and Special Studies of Natural Resources and Energy. This office will report directly to the Deputy Secretary and be headed by a Special Assistant to the Deputy Secretary. The office will perform ongoing analyses and special studies of the international economic implications of the United States' position in selected natural resources, including coal, oil, natural gas, copper, and other minerals of importance to the U.S. balance of payments. The office will also advise the Deputy Secretary on related tax policies including depletion allowances, accelerated amortization, investment credits, and production incentives, as well as tariffs and quotas, financial and investment policies, price controls, and loans and guarantees as they affect U.S. natural resource and energy needs. Its work will complement the ongoing work in the natural resource field in the Office of the Assistant Secretary for International Affairs, the Assistant Secretary for Tax Policy, and other areas in the Office of the Secretary.

The work of the office will include contact with other Government agencies concerned with resources and energy, on the one hand; and the various parts of the Treasury concerned with tax policy, trade policy, economic policy, international affairs, and monetary affairs, on the other hand.

The office will concern itself with the supply and demand needs for significant energy resources of the U.S. economy and make recommendations to the Deputy Secretary about the most appropriate policies which will produce a favorable U.S. supply-demand balance for energy and other selected natural resources.

For reference purposes this office will be known as the Office of Natural Resources and Energy.

William E. Simon
Acting Secretary of the Treasury

Date: September 1, 1973

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

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EMBARGOED FOR RELEASE UNTIL
10:00 A.M. EDT MONDAY, SEPTEMBER 17, 1973

TESTIMONY BY THE HONORABLE WILLIAM E. SIMON
DEPUTY SECRETARY OF THE TREASURY
BEFORE THE
HOUSE COMMITTEE ON BANKING AND CURRENCY
MONDAY, SEPTEMBER 17, 1973, 10:00 A.M. EDT

Mr. Chairman and Members of this Committee:

I am delighted to appear before you to participate in your review of current monetary and financial conditions. As part of this review, I would like to discuss with you the economic policy we have been pursuing. In so doing, I think it is important to emphasize the role that interest rates play in our economy and the effect that various economic conditions have on interest rates and on the financial climate in general. Further, in order to understand what must be done to prevent financial crises and assure adequate credit flows at reasonable interest rates, it is important to outline the present structure of our financial institutions, the relationship this structure has to recurring monetary and credit crises and the changes in that structure which we feel are so important.

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Economic Policy

Our economic goals are ambitious. We wish to see the economy grow as rapidly as possible and we wish to see the benefits of this improved economic well-being widely dispersed. We wish to subdue inflation. We wish to have a strong competitive position internationally. To achieve these goals, it is critical that we have discipline -- the discipline of the market place, the self-discipline exercised by responsible business and labor leaders, and the discipline of appropriate government fiscal and monetary policies.

Over the past year, the economy moved very rapidly toward full utilization of its manpower and productive facilities. The pace of domestic economic expansion exceeded expectations and there were unusually large gains in production and employment. During the past year, our Gross National Product has risen 6.2 percent in real terms.

Other developments, however, have caused us great difficulties. 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. Such developments testify to the need for policies that will guide the economy on to a sustainable but much less inflationary path of expansion.

There is no mystery about the correct direction for government policies during such a period of intense inflationary pressure. Fiscal and monetary policies must work in tandem to exert a restraining influence on the economy. No wage-price control program, however well designed, however massively staffed, can make a contribution to the fight against inflation 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 our greatest enemy -- uncontrolled Federal spending -- must be subdued. In the present environment, that task takes on a renewed urgency. The Congress and the Executive Branch must cooperate closely in this important effort. It was through such an effort that we were successful in holding Federal spending below $250 billion during fiscal 1973. Although there have been many differences between the Congress and the Administration over specific Federal program cutbacks and spending reductions, the important point is that our spending goal was achieved.

Our problem today is equally challenging. Inflation continues to be the Number One economic problem, and we must insure that our economic policies are adequate to combat it. Phase IV of the Economic Stabilization Program can help to moderate inflation. The main weapons, however, remain our general economic and financial policies, supplemented by special measures to encourage increased supplies of goods and services.

I would like to emphasize the operational necessity for exerting restraint on Federal expenditures. Every dollar we cut from the Federal deficit is another blow against higher prices. The most effective step we can take in our fight against inflation is to remove the deficit altogether. We are hopeful that fiscal 1974 revenues will approximate the $268.7 billion 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 -- a budget that will make available an additional $20 billion for Federal spending over last year's levels, but that will nevertheless be a responsible budget in terms of the needs of economic policy.

However, the battle for essential budgetary discipline is far from over. To be successful, it will require a major effort by both the Congress and the Administration to live within the spending total. Congress has indicated a strong desire not only to control the total level of government outlays but also to determine which programs should be curtailed to achieve those levels. Such restraint must be exercised if we are to avoid an unacceptable rate of inflation or higher taxes -- or both.

Let us briefly review what has happened in the economy since the beginning of the year. While total economic activity has continued to advance and unemployment has continued to dec price performance during the first half of the year was most unsatisfactory. For example, the GNP deflator rose at nearly a 6-1/2 percent annual rate in contrast to about a 3 percent annual rate in the last half of 1972. Consumer prices rose at an 8 percent annual rate in contrast to less than a 4 percent annual rate in the last half of 1972. Rates of advance of wholesale prices, especially for agricultural products and other raw materials, were extremely rapid in the first half of the year. Increases in food and petroleum-product prices have accounted for approximately 60 percent of the rise in both our consumer and wholesale price indexes since the end of 1972. Excluding these two commodities, the consumer price index rose at an annual rate of 3.8 percent in the first seven months of 1973 -- not markedly different from the inflation rate last year.

A number of factors combined to trigger this burst of inflation. Perhaps the single most important element over the past year has been the reduction in available supply of food because of bad weather and in some cases disasterously poor crops here and abroad. A second major element in the inflation problem is the world-wide economic boom. Every industrialized country has been simultaneously experiencing strong economic growth and this unusual development has put great pressure on the supplies and prices of industrial raw materials.

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' duration. Subsequently, on July 18, we announced the Phase IV controls program, which is taking 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 different circumstances of various industries. Therefore some industries, notably food and petroleum, are operating under special rules, while other industries will, over time, be exempted from price controls based on their own favorable pricing track record.

Another key element of our anti-inflation program has been a series of important actions taken to increase supplies in those sectors of the economy where shortages have created upward pressure on prices and costs. These actions include the removal of acreage set-aside requirements for farmers; removal of import quotas on oil; and the partial or complete removal of import quotas on non-fat dry milk, cheese, and meat. We are also -- within the limits imposed by current laws -- selling scarce metals and other commodities no longer needed in the Federal Government's stockpiles. We are hopeful that the Congress will provide authority for the sale of additional materials from stockpiles where the commodities

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exceed our national security requirements. Their availability in the open market will provide needed raw materials, many currently in short supply, thereby reducing inflationary pressures.

Financial Conditions and Interest Rates

These actions to increase supplies, along with fiscal and monetary restraint and the Phase IV program, are aimed at the problem of rising prices. However, there is another aspect of this picture that must be more widely understood; and that is the effect that inflation has on general financial conditions and on interest rates in particular.

All of us will readily agree that moderation is required in interest rates, and that some self-discipline is required to achieve this. We want interest rates to stay at reasonable levels to encourage business investment and enhance economic growth.

But at the same time, we must recognize the special role interest rates play in regulating our economy. Credit is a crucial resource, because it is used by every sector of the economy. It is needed by every business to finance new plant and equipment, to finance the acquistion of inventories, and to provide working capital. But like all other resources, credit is a scarce commodity. When everybody wants more credit, there isn't enough to go around. Indeed, we would not want an unlimited supply of credit to be available, because an overabundance of credit will very quickly send the economy into inflationary orbit.

Accordingly, when the economy approaches its full potential, the demand for credit increases. When this happens, credit has to be rationed in some way. The method used by the free market to ration credit is to put a higher price on it -- that is, higher interest rates. Those higher rates act as a stabilizer, putting a damper on excessive spending.

If interest rates fail to go up during a boom, that usually means something is wrong. Too much credit is being created because there is no rationing. That is what happened for a period in the mid-1960's.

At both extremes, interest rates are signs of economic malaise. If they are excessively low, something is wrong with the economy, such as a recession. If they are too high, there is a shortage of credit or the economy is overheating. But when they are permitted to do so, interest rates act as a control mechanism -- a spur to the saver and a discipline on the borrower. This to me is the legitimate function of interest rates -- namely, to respond to supply and demand in the market place, and to reflect and help stabilize the economy.

Some people have suggested that it would help the economy to directly control interest rates. In my opinion,

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interest rate controls, far from helping the economy, badly distort it. All our experience demonstrates that. As you know, the Government attempted early this year to limit the rise in the "prime" lending rate of commercial banks. This was quickly followed by distortions in the credit markets. Many corporations turned away from their normal sources of short-term financing (e.g., the commercial paper market), which had become relatively high-cost sources, and applied to the banking system for artifically low-cost funds. Another result of the controls on the prime rate was that some corporations borrowed from one bank and used these funds to purchase higher-yielding certificates of deposit from another bank. In addition, smaller commercial banks loaned their available funds at high interest rates to the hard-pressed money center banks, instead of pursuing their basic responsibility of accommodating the legitimate credit requests from their local customers. Changes of this sort in normal financial practices reduce the efficiency of our credit system and tend to push interest rates to levels higher than they would otherwise be.

Another control mechanism that has distorted the economic picture has been the limitation on interest rates on consumer time and savings deposits. These restrictions were first imposed in the 1930's in the mistaken belief that excessive interest rate competition among financial institutions caused the bank failures of the era. However, the principal effect of these controls has been to deprive small savers of a fair interest return on their savings deposits. As you know, the Government moved this year to mitigate this type of discrimination against small savers by raising the permissible interest rate limits on time and savings deposits at commercial banks and thrift institutions. At present, however, the maximum that commercial banks and savings and loan associations may pay on their savings accounts is still only 5 percent and 5-1/4 percent, respectively. As a result, consumers are receiving 5 and 5-1/4 percent on their savings while consumer prices have been rising at an annual rate of 8 percent. It is true that Treasury bills, which are certainly as safe an investment, are carrying yields of more than 8-1/2 percent presently, but individual savers generally have neither the capital nor the expertise to switch to these or other alternative investments.

Recommended Reforms in Financial System

Recognizing the need to reduce such discrimination against small savers and consumer-borrowers and to reduce distortions created by past control devices, the President has recently recommended basic changes in our financial system. They are founded on the assumption that the public interest is better served by the free play of competitive forces than by the imposition of rigid and unnecessary regulation. As such, we have focused on removing unworkable regulatory procedures, as well as inherent inflexibilities,

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and providing additional powers for the various types of institutions. At the same time, we have given careful attention to the continued soundness and safety of our financial system. Throughout, we have sought to preserve and strengthen the dual banking system. We believe it has contributed a great deal to the efficient operation of financial markets by permitting competition among supervisory authorities as well as restraining such authorities from over-protecting existing firms by restricting entry into the field.

The recommendations, which cover seven major areas, may be highlighted as follows:

(1) Interest ceilings on time and savings accounts should be phased out over 5-1/2 years, while the prohibition against interest on demand deposits should remain.

(2) Deposit services provided by federally chartered thrift institutions and banks should be expanded. Federal thrift institutions should be permitted to extend N.O.W.-account, demand-account and credit-card services to all customers, and national banks should be able to provide corporate savings accounts and N.O.W. accounts to all customers.

(3) Lending and investment services provided by federal thrift institutions should be extended so that they may make real estate and construction loans

on an expanded basis; so that they may make consumer loans; and so that they may acquire high grade corporate debt, all on a limited basis.

(4) Federal charters should be available for mutual savings banks and stock savings and loan associations. Making federal charters available to these institutions will enhance the dual banking system by providing them with a choice of supervisory authorities. Stock savings and loan associations have been operating in a more than satisfactory manner at the state level for a number of years and federal charters should be available to them as well.

(5) Credit unions should be provided with greater access to funds.

(6) FHA and VA interest ceilings should be removed.

(7) In order to achieve tax neutrality, the special tax provisions applicable to thrift institutions should be eliminated and a mortgage tax credit should be available to all lenders. The purpose is to ensure that a given investment or loan will be subject to the same income tax provisions regardless of the functional type of financial institution making the investment or loan.

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Further, by making the tax credit available to all taxpayers -- that is, commercial banks, insurance companies and individuals -- it will serve as an incentive to attract money into the mortgage market.

Analysis of the recommendations in their detailed form will show that competition and efficiency are to be achieved by placing deposit institutions on equal footing in three essential areas: (1) deposit powers; (2) asset powers; and (3) taxes.

We are not proposing to give additional non-financial powers to financial institutions. Rather, equal footing will be achieved by a significant expansion in the ability of thrift institutions to offer deposit, lending and investment services. Just as important is the removal of current biases in the tax treatment of major deposit institutions and the creation of tax neutrality so that institutions engaging in the same activities -- mortgage lending for example -- will compete on an equal basis.

It is also important to understand that the additional powers we are recommending are not going to be imposed on financial institutions. The institutions will have the flexibility to continue specialization if that is their desire and will have the capability to tailor their services to meet the specific needs of their communities. Restrictions that limit what a particular institution can or cannot do to serve its own local community reduces the availability of services and credit to the consumer.

Consumers will benefit from the recommended reforms because they will generally be provided financial services at a lower cost, as well as a market or near-market rate of return on their savings. Borrowers will have greater assurance of credit when they need it, and at reasonable rates. And most important, the financial institutions will be less dependent on government.

Conclusion

In closing, I would reemphasize that today we are faced with economic and monetary conditions that again raise serious questions about the viability of our financial institutions. Because of ever-increasing Government regulations, many of which had their origin in the 1930's, banks, and particularly savings and loan institutions, have come to rely excessively on the Federal Government to carry them through periods of monetary restraint. Additionally, consumer interests have been severely penalized. Consumer savers have not been allowed a fair return on their savings, and consumer borrowers have suffered through periods of credit unavailability.

Events during the last decade have revealed significant defects in our financial markets in general and our financial institutions in particular. The credit crunch of 1966, the monetary and gold crises of 1968 and the severe squeeze of

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1969-1970 illustrate that our system does not adjust well to short-term changes in economic and financial conditions. We are now in a period in which short-term interest rates have again risen sharply in response to underlying economic conditions. In such a situation, savings and loan associations and mutual savings banks, as they are currently structured, simply cannot get enough money because depositors look for better returns and deposit, or redeposit, their money elsewhere. The result is that home buyers are penalized by being unable to obtain mortgage money at any price.

Such problems cannot be resolved by piece-meal, interim changes in the financial system. We recognize that the demands for credit will be heavy in the years ahead, and what we need is a permanent system that will provide sufficient freedom in our financial markets to assure that the various institutions competing in those markets have the same powers and the same flexibility. Consumers will be better served by this competitive equality, and financial markets will work more efficiently.

Viewed in the context of our overall economic policy, our recommendations for changes in the structure of our financial institutions are essential. 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 shift between deposits and other assets as market rates fluctuate.

Coupled with sound fiscal and monetary policy, these changes will enable our institutions to operate normally through periods of economic change and help provide the proper foundation for stable economic growth.

Thank you.

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FOR U. S. TREASURY DEPARTMENT

PROGRAM News of the Hour on the Hour STATION WMAL Radio AIR Network

DATE September 14, 1973 10:00 AM CITY Washington, D.C

SHULTZ CRITICIZES LAIRD

BOB WALKER: Treasury Secretary George Shultz has sharply criticized Melvin Laird, the President's chief domestic adviser. At a news conference in Tokyo this morning, here's what Shultz said about Laird:

SECRETARY OF THE TREASURY GEORGE SHULTZ: I think the President's adviser on domestic affairs can keep his cotton-pickin hands off the economic policy for a change.

WALKER: Shultz was referring to what Laird said at the White House yesterday, and what Laird said was that President Nixon is considering an across-the-board income tax surcharge of 10% to help cool the economy. Secretary Shultz said when he left Washington a week ago, the policy was to keep taxes down.

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FOR U. S. TREASURY DEPARTMENT

PROGRAM News of the Hour on the Hour STATION WMAL Radio
AIR Network

DATE September 14, 1973 11:00 AM CITY Washington, D.C.

COMMENT BY SECRETARY SHULTZ

GEORGE ENGLE: An annoyed Treasury Secretary sent a long-distance protest to Melvin Laird early this morning. Treasury Secretary George Shultz told a Tokyo news conference:

SECRETARY OF THE TREASURY GEORGE SHULTZ: I think the President's adviser on domestic affairs can keep his cotton-pickin hands off the economic policy for a change.

ENGLE: Shultz was irked over Laird's announcement yesterda that President Nixon was considering an income tax surcharge to cool off the economy, refundable to the taxpayer when things settled down.

Some congressmen have called Laird's statement a trial balloon. It's run into some heavy political flak in Washington.

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FOR U. S. TREASURY DEPARTMENT

PROGRAM News of the Hour on the Hour STATION WMAL Radio AIR Network

DATE September 14, 1973 1:00 PM CITY Washington, D.C.

SHULTZ CRITICIZES TAX PROPOSAL

STEVE POWERS: In Tokyo, Treasury Secretary Shultz today criticized a proposal for a 10% tax surcharge announced yesterday by domestic counselor Melvin Laird. Shultz says Laird always sounds off about economic policy when Shultz is away, and Shultz suggested Laird can, quote: Keep his cotton-pickin hands off economic policy, unquote.

More on the tax controversy from correspondent Jerry Landay at the White House.

JERRY LANDAY: The thrust of the administration's seeming confusing strategy on taxes is in fact simple and direct. It is apparently to pin the blame on Congress for any tax increase next year.

Domestic counselor Melvin Laird made this clear in a conversation with ABC News in which he said that any decision on whether there are to be higher taxes or not is a decision Congress is going to have to make. Laird pointed out that the Congress has already exceeded budget in approved spending legislation by $1.5 billion. Laird made light of any conflict between himself and Treasury Secretary Shultz. In fact, he jokingly pointed out that an aide to Shultz delivered him a pair of white gloves this morning to help him pick the cotton.

FOR U. S. TREASURY DEPARTMENT

PROGRAM News of the Hour on the Hour STATION WMAL Radio AIR Network

DATE September 14, 1973 2:00 PM CITY Washington, D.C.

TAX SURCHARGE

GEORGE CALDWELL: In Tokyo today, Treasury Secretary Shultz criticized the tax surcharge proposal advanced yesterday by domestic adviser Melvin Laird. In Washington, White House spokesman Gerald Warren says there's no problem between Shultz and Laird on the tax policy question.

FOR U. S. TREASURY DEPARTMENT

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PROGRAM News of the Hour on the Hour STATION WMAL Radio
AIR Network

DATE September 14, 1973 3:00 PM CITY Washington, D.C.

POSSIBLE TAX INCREASE

STEVE POWERS: A White House spokesman says there is no problem between presidential advisers Melvin Laird and George Shultz, just a misunderstanding. Yesterday, Laird said the President was considering a 10% tax surcharge. Today in Tokyo, Shultz says Laird should, quote: Keep his cotton-pickin hands off economic policy." Shultz says the administration is not seriously considering a tax surcharge.

Correspondent Jerry Landay has more on the story from the White House.

JERRY LANDAY: White House domestic counselor Melvin Laird threw away the velvet gloves and warned Congress bluntly today that if a tax increase is needed next year, it will be the fault of a spendthrift Congress. Laird told me that if the Congress continues to spend beyond the budget, higher taxes will be needed to provide the extra revenue.

By implication, Laird was saying the White House's hands will be clean. He said the administration remains opposed to any tax hikes, even though it is studying tax recommendations.

Laird made his statement to me in a phone call as he tried to play down an apparent long-distance feud between himself and Treasury Secretary Shultz in Tokyo over Laird's comments on taxes yesterday.

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FOR U. S. TREASURY DEPARTMENT

PROGRAM News of the Hour on the Hour STATION WMAL Radio
AIR Network

DATE September 14, 1973 4:00 PM CITY Washington, D.C.

PERSONAL DISPUTE

JOHN GRIMES: The White House denies there is any personal dispute going on between White House adviser Melvin Laird and Treasury Secretary Shultz. Earlier, Shultz told newsmen in Tokyo Laird should keep his, quote, cotton-pickin hands off economic policy.

Laird told newsmen yesterday President Nixon was studying a proposal for a 10% income tax surcharge. Today Laird warned Congress unless it holds down federal spending, the tax hike may be needed next year.

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FOR U. S. TREASURY DEPARTMENT

PROGRAM NBC News on the Hour STATION WRC Radio
NBC Network

DATE September 14, 1973 11:00 AM CITY Washington, D.C.

SHULTZ'S BLUNT WRATH

MIKE MOSS: Two of President Nixon's top advisers, Melvin Laird and George Shultz, are at loggerheads with each other. Laird has drawn Shultz's blunt wrath for floating a trial balloon yesterda saying the White House was considering a 10% personal and corporate tax hike to cool inflation. Shultz retorted by saying Laird should keep his cotton-pickin hands off economic policy.

When Shultz left Washington for world trade talks in Tokyo last week, he was President Nixon's economic adviser and Laird was the President's domestic affairs adviser.

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FOR U. S. TREASURY DEPARTMENT

PROGRAM NBC News on the Hour

STATION WRC Radio
NBC Network

DATE September 14, 1973 2:00 PM

CITY Washington, D.C.

TEN PERCENT TAX SURCHARGE

BOB CAIN: President Nixon's chief economic adviser has told President Nixon's chief domestic adviser to mind his own business -- in public. The jab from Treasury Secretary Shultz to domestic adviser Laird was over Laird's announcement yesterday that the administration was considering a 10% tax surcharge. Shultz commented in Tokyo where he's attending a finance ministers meeting.

NBC White House correspondent Russ Ward reports the White House fails to see anything wrong with the testy dialogue.

RUSS WARD: "No real problems," said press spokesman Gerald Warren. "I really don't see any disagreement between counselor Laird and Secretary Shultz." The round of laughter from White House reporters suggested that Warren was far short in explaining away what appears to be a political tug-of-war between the President's chief domestic adviser and his Treasury Secretary.

Warren said Mr. Nixon regards Shultz as his top economic adviser, but when asked whether the President shares the Secretary's view that Laird should keep his cotton-picking hands off economic policy, Warren said simply, "The President agrees that the fight against inflation is a serious one."

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FOR U. S. TREASURY DEPARTMENT

PROGRAM NBC News on the Hour STATION WRC Radio
NBC Network

DATE September 14, 1973 3:00 PM CITY Washington, D.C.

SHULTZ/LAIRD MISUNDERSTANDING

STEVE PORTER: The White House says there's no bad feelin between Shultz and Laird. This is Steve Porter with word from White House deputy news secretary Gerald Warren that there's no problem between Treasury Secretary Shultz and White House domestic affairs adviser Melvin Laird despite Shultz's assertion that Laird should keep his hands out of economic policy. Warren says there may be a misunderstanding, partly because Shultz is so far away, in Tokyo attending trade talks.

Shultz took issue with Laird's announcement of yesterday saying the President is considering a proposed tax increase which would be refundable when the economy cools down.

NBC News correspondent Rebecca Bell says a former White House adviser on the speaking trail in Chicago has also had some comment on that proposal.

REBECCA BELL: At a news conference in Chicago, former Texas Governor and presidential adviser John Connally said he advise the President in June not to seek any form of tax increase, and he still stands by that advice.

JOHN CONNALLY: The reason we didn't do it at the time was because we thought it was not a wise thing to try to do. We thought the Congress would not accept it. In the light of increase cost, in the light of inflation, we thought it would be sheer follo to try to go up and get a tax increase at that moment in time, and I still think it would.

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FOR U. S. TREASURY DEPARTMENT

PROGRAM NBC Nightly News

STATION WRC TV
NBC Network

DATE September 13, 1973 6:30 PM

CITY Washington, D.C.

U.S. ENERGY RESOURCES

JOHN CHANCELLOR: Treasury Secretary George Shultz said today the United States should go all out in developing its own energy resources. Shultz said that's the best way to keep oil producing countries from trying to interfere in American foreign policy.

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FOR U. S. TREASURY DEPARTMENT

PROGRAM CBS News STATION WTOP Radio
CBS Network

DATE September 14, 1973 5:00 PM CITY Washington, D.C

STATEMENT FROM JOHN CONNALLY

RICHARD C. HOTTELET: The Treasury Department today sent Melvin Laird a pair of white cotton gloves. Whether as a peace offering or the other way around is not altogether clear. Secretary of the Treasury George Shultz, now in Tokyo, told Laird yesterday to keep his cotton-picking hands off economic policy.

Laird had told reporters that the administration was considering two measures to increase taxes in order to fight inflat one a 10% surcharge repayable at a later time, a kind of forced loan, the second a reduction of the industrial investment credit.

Former Secretary of the Treasury and possible future political candidate John Connally agrees with Shultz.

JOHN CONNALLY: There was a great deal of pros and cons about it. I don't know that -- the reason we didn't do it at the time was because we thought it was not a wise thing to try to do. We thought the Congress would not accept it. In the light of incr cost, in the light of inflation, we thought it would be sheer foll to try to go up and get a tax increase at that moment in time, and I still think it would.

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FOR U. S. TREASURY DEPARTMENT

PROGRAM CBS Morning News STATION WTOP TV
CBS Network

DATE September 14, 1973 7:00 AM CITY Washington, D.C.

RAISE IN TAXES

HUGHES RUDD: Melvin Laird told a news conference yesterday that the administration is considering a raise in our taxes and he mentioned a possible 10% increase. Laird said the idea is to collect the tax during periods of inflation and then give it all back whenever there's a business slump.

Well, the Secretary of the Treasury, George Shultz, was in Tokyo when he heard about Mr. Laird's remarks, and he blew up. "Laird always gives news conferences on this subject when I'm away," said Shultz, "and I wish he'd keep his cotton-pickin hands off economic policy."

And then to add further confusion to the who's-in-charge-here department, President Nixon said in his message to Congress last monday, quote: This administration continues its strong opposition to a tax increase. End quote. And during his last campaign, Mr. Nixon said, "America needs not a tax increase, but tax relief."

Well, some congressmen are saying Mr. Laird's remarks were just a trial balloon and they're already trying to shoot it down. Senator William Proxmire of Wisconsin says the proposal doesn't make any sense at all.

* * *

RUDD: Here's another look at the news. President Nixon's domestic adviser Melvin Laird is getting some advice from Treasury Secretary George Shultz. Shultz says Laird, and this is a quote, "Should keep his cotton-pickin hands off economic policy." That's after Laird talked about the possibility of a temporary income tax increase.

Congress' reaction to the idea was mostly chilly. Some members said it sounded like a White House trial balloon that'll get popped pretty quickly.

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FOR U. S. TREASURY DEPARTMENT

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PROGRAM Worldwide News STATION WWDC Radio AE Network

DATE September 14, 1973 9:30 AM CITY Washington, D.C.

SHULTZ CRITICIZES LAIRD

BILL DEAL: U.S. Treasury Secretary George Shultz has told President Nixon's domestic adviser Melvin Laird to, quote: Keep his cotton-pickin hands off economic policy.

Shultz criticized Laird in Tokyo after hearing that Laird had said the White House was considering a 10% income tax surcharge. Shultz also had this to say about Laird:

SECRETARY OF THE TREASURY GEORGE SHULTZ: He always gives press conferences on economic subjects when I'm away. He did this to me when I was in Paris trying to negotiate amonetary rearrangement. He sounded off about the exchange value for the dollar. And here I am in Tokyo and he's sounding off about taxes.

DEAL: George Shultz said when he left Washington a week ago, the White House policy was to hold down taxes, to economi and balance the budget.

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FOR U. S. TREASURY DEPARTMENT

PROGRAM Worldwide News STATION WWDC Radio AE Network

DATE September 14, 1973 10:30 AM CITY Washington, D.C

COMMENT BY SECRETARY SHULTZ

DON BLAIR: The comment made by presidential adviser Melvin Laird at a news conference yesterday that President Nixon was considering an income tax surcharge has run into a virtual stone wall on Capitol Hill, but it doesn't end there. Treasury Secretary George Shultz, attending international trade talks in Tokyo, was told of Laird's remark. ABC News was there as Shultz offered Melvin Laird this advice.

SECRETARY OF THE TREASURY GEORGE SHULTZ: I think the President's adviser on domestic affairs can keep his cotton-pickin hands off the economic policy for a change.

BLAIR: Shultz said Laird always gives news conferences on these subjects when he, Shultz, is away.

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FOR U. S. TREASURY DEPARTMENT

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PROGRAM Worldwide News STATION WWDC Radio AE Network

DATE September 14, 1973 11:30 AM CITY Washington, D.C.

STATEMENT BY SHULTZ

BILL DEAL: Things seem to happen when George Shultz is out of town. Yesterday, President Nixon's domestic adviser Melvin Laird said the White House was considering a 10% tax surcharge in order to hold down inflation. That announcement by Laird apparent caught Shultz by surprise and prompted this comment in Tokyo:

SECRETARY OF THE TREASURY GEORGE SHULTZ: He always gives press conferences on economic subjects when I'm away. He did this to me when I was in Paris trying to negotiate a monetary rearrangement. He sounded off about the exchange value for the dollar, and here I am in Tokyo and he's sounding off about taxes.

DEAL: Shultz said Laird ought to, quote: Keep his cotton-pickin hands off economic policy."

Shultz said, when he left Washington last week, the Nixon administration's policy was to hold down taxes, not raise them.

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FOR U. S. TREASURY DEPARTMENT

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PROGRAM Worldwide News STATION WWDC Radio
AE Network

DATE September 14, 1973 2:30 PM CITY Washington, D.C.

ADMINISTRATION FEUD

DON BLAIR: It had all the makings of an administration feud when Treasury Secretary Shultz in Tokyo suggested White House adviser Melvin Laird, quote: Keep his cotton-picking [sic] hands off economic policy. More from ABC's Jerry Landay at the White House.

JERRY LANDAY: White House domestic counselor Melvin Laird threw away the velvet gloves and warned Congress bluntly today that if a tax increase is needed next year, it will be the fault of a spendthrift Congress. Laird told me that if the Congress continues to spend beyond the budget, higher taxes will be needed to provide the extra revenue.

By implication, Laird was saying the White House's hands will be clean. He said the administration remains opposed to any tax hikes, even though it is studying tax recommendations.

Laird made his statement to me in a phone call as he tried to play down an apparent long-distance feud between himself and Treasury Secretary Shultz in Tokyo over Laird's comments on taxes yesterday.

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FOR U. S. TREASURY DEPARTMENT

PROGRAM Worldwide News STATION WWDC Radio AE Network

DATE September 14, 1973 3:30 PM CITY Washington, D.C.

MISUNDERSTANDING

JOHN CAMERON: The White House says maybe there's some misunderstanding between Treasury Secretary Shultz and White House aide Melvin Laird, but certainly no basic disagreement.

After Laird floated out the idea of a 10% tax increase yesterday, Treasury Secretary Shultz suggested Laird stick to his own business and leave economic matters alone.

FOR U. S. TREASURY DEPARTMENT

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PROGRAM The World Tonight STATION WTOP Radio
CBS Network

DATE September 14, 1973 6:00 PM CITY Washington, D.C.

POSSIBLE TAX INCREASE

RICHARD C. HOTTELET: George Shultz is the President's economic czar, but he's in Tokyo. And it was Melvin Laird who broke the news yesterday that Mr. Nixon is considering a tax increase. Reporters asked Shultz about that today, and he popped off.

SECRETARY OF THE TREASURY GEORGE SHULTZ: He always gives press conferences on economic subjects when I'm away, and here I am in Tokyo and he's sounding off about taxes, so you'd better ask him. And I think the President's adviser on domestic affairs can keep his cotton-pickin hands off the economic policy for a change.

HOTTELET: The word got back to the White House, of course, and Robert Pierpoint picks up the story there.

ROBERT PIERPOINT: The apparent difference between Laird and Shultz was treated somewhat lightly by the White House. President spokesman Gerald Warren said he had not talked to the Treasury Secretary, adding, however, "I am confident, in my heart, mind and soul, that there is no problem between Mr. Shultz and Mr. Laird, but there might be some misunderstanding." Asked if he would say that Shultz had gone off half-cocked, Warren answered, "I would never say that."

Both Warren and Laird himself maintained that President Nixon is considering the tax proposal put forth by Federal Reserve Chairman Burns and that Treasury Secretary Shultz will study them. Laird suggested that Shultz might have made that remark about Laird keeping his cotton-picking hands off economic matters because Shultz did not know that President Nixon had ordered a Treasury Department study of the tax proposal.

One of Shultz's deputies at Treasury this morning teasingly presented Laird with a pair of white cotton gloves, and when CBS News asked the President's domestic counselor who's area he was working in today, Laird replied, "Just at this moment I'm doing a little digging in the potato patch of Agriculture Secretary Butz."

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FOR U. S. TREASURY DEPARTMENT

PROGRAM Paul Harvey STATION WMAL Radio
AIR Network

DATE September 14, 1973 12:30 PM CITY Washington, D.C.

POSSIBLE TAX INCREASE

PAUL HARVEY: As they say we say on Madison Avenue, the administration ran up an idea on the flagpole yesterday to see if anybody would salute it. White House adviser Mel Laird suggested an extra 10% income tax, refundable next recession. Nobody saluted. Opposition in Congress and on Main Street is almost unanimous.

And Treasury Secretary Shultz, from faraway Tokyo, radioed home for Mel Laird to keep his cotton-pickin hands off economic policy. Shultz is really teed off about this. He says everytime I leave town, Laird sounds off on economic policy.

FOR U. S. TREASURY DEPARTMENT (127)

PROGRAM Paul Harvey STATION WMAL Radio
AIR Network

DATE September 14, 1973 9:00 AM CITY Washington, D.C.

POSSIBLE TAX SURCHARGE

PAUL HARVEY: Now, as they say we say on Madison Avenue, the administration ran an idea up on the flagpole yesterday to see if anybody would salute it. White House adviser Mel Laird suggested an extra 10% income tax surcharge, refundable next recession Nobody saluted. Opposition in Congress and on Main Street is almost unanimous.

And Treasury Secretary Shultz, from faraway Tokyo, radioed home for Mel Laird to keep his cotton-pickin hands off economic policy, end quote.

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FOR U. S. TREASURY DEPARTMENT

PROGRAM News Around the World STATION WMAL Radio AIR Network

DATE September 14, 1973 8:00 AM CITY Washington, D.C.

INCOME TAX SURCHARGE

BOB WALKER: Congress has reacted to the possibility of an income tax surcharge, and the reaction was so negative the proposal may never surface again. Democrats and Republicans from both Houses who are responsible for writing tax legislation were not only skeptical, but openly hostile to the idea of increasing income taxes now and returning them to the taxpayers later. Melvin Laird, who is President Nixon's chief domestic adviser said yesterday a 10% surcharge is being considered.

Laird even got some flak from Tokyo where Treasury Secretary George Shultz is attending a trade conference. At a news conference this morning, Shultz told Laird to lay off economic policy.

SECRETARY OF THE TREASURY GEORGE SHULTZ: I think the President's adviser on domestic affairs can keep his cotton-pickin hands off the economic policy for a change.

WALKER: Shultz complained further about Melvin Laird.

SECRETARY SHULTZ: He always gives press conferences on economic subjects when I'm away. He did this to me when I was in Paris trying to negotiate a monetary rearrangement. He sounded off about the exchange value for the dollar. And here I am in Tokyo and he's sounding off about taxes.

WALKER: Secretary Shultz conceded he had been away from Washington for a week, but Shultz said when he left, the White House policy was to hold down taxes, economize and balance the budget.

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FOR DEPARTMENT OF THE TREASURY

PROGRAM Paul Harvey STATION WMAL Radio AIR Network

DATE September 13, 1973 12:30 P.M. CITY Washington, D.C.

FOOD PRICE PROBLEM BEHIND US

PAUL HARVEY: Stateside: increasing food supplies, moderating prices. Wholesale food prices registered some gigantic declines the past four weeks. Wholesale food prices. You'll get relief at the supermarket shortly.

Treasury Secretary Shultz says the worst of the food price problem is behind us now.

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FOR DEPARTMENT OF THE TREASURY

PROGRAM NBC News on the Hour STATION WRC Radio
NBC Network

DATE September 13, 1973 12:00 Noon CITY Washington, D.C.

SHULTZ SAYS U.S. WILL DEVELOP ITS OWN ENERGY RESOURCES

RICHARD ROSENTHAL: Treasury Secretary George Shultz, attending a world trade conference in Tokyo, said today the U.S. intends to counter Arab oil pressures by developing its own very ample energy resources.

FOR DEPARTMENT OF THE TREASURY 130

PROGRAM NBC Nightly News STATION WRC TV
NBC Network

DATE September 14, 1973 6:30 P.M. CITY Washington, D.C.

SHULTZ PUNCTURES TAX SURCHARGE TRIAL BALLOON

JOHN CHANCELLOR: One of the biggest trial balloons in a long time, the idea of a ten percent income tax surcharge, seems to have been punctured today by no less a figure than the Secretary of the Treasury. Yesterday presidential counselor Melvin Laird said the surcharge was a possibility, but when Treasury Secretary George Shultz heard about that he said publicly at a meeting in Tokyo, "Laird always gives press conferences on economic subjects when I'm away." Shultz knocked down the idea of a surcharge and said, quote, that "Laird should keep his cotton-pickin' hands off economic policy." When word of this startling statement hit Washington, somebody gave Laird a pair of white gloves, useful for picking cotton.

Here's what it all means from Irving R. Levine.

IRVING R. LEVINE: It all began when Treasury Secretary Shultz left town last weekend for a series of conferences overseas. On Tuesday, Federal Reserve Chairman Arthur Burns, a critic of Shultz for not taking tougher steps against inflation, took the opportunity of Shultz's absence to try to sell President Nixon on the need for a tax increase. On Wednesday, at a congressional hearing, Burns tried to prod the President to act on a tax increase by volunteering that he had found the President sympathetic to the idea. But Burns appears to have misinterpreted the President's polite attention as support for an increase. So on Thursday White House aide Melvin Laird tried to get things straight without offending Burns by saying the increase was one of many things under consideration. But, as one White House official put it, Laird overexplained, he said too much, and left the impression that the tax increase was in the works.

Today in Tokyo Shultz got the impression from all this that his policy of no tax increase was being sabotaged in his absence. As a result, Shultz was irritated.

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FOR DEPARTMENT OF THE TREASURY

PROGRAM CBS Radio News STATION WTOP Radio CBS Network

DATE September 14, 1973 9:00 PM CITY Washington, DC

SHULTZ SHOOTS DOWN TRIAL BALLOON

DOUGLAS EDWARDS: Most of the reaction so far has been unfavourable to the proposal from the White House that a ten percent income tax surcharge be considered to cool off inflation.

A report from Charles Osgood.

CHARLES OSGOOD: The inflation, ascension and shooting down of an Administrative trial balloon.

Melvin Laird, President Nixon's Chief Domestic Adviser, gave a perfect example of how to float a trial balloon yesterday. He did it at a news conference where he suggested President Nixon might ask Congress to tack on a ten percent income tax increase and then some day give the tax payer his money back when the economy slows down. Just might, mind you.

MELVIN LAIRD: We should all understand that we're talking now about proposals, and in this openness of this Administration -- as we move towards greater openness -- and that's what we're doing -- and we're talking openly about ideas and proposals. There has been a proposal which has been talked of, but the rate has not been decided and I don't want to mislead people through open discussion that a rate has been decided, but the proposal is in the area of around ten percent.

OSGOOD: Now, just as a rose is a rose is a rose, Mr. Laird made it clear this proposal is a proposal is a proposal.

LAIRD: The proposal is a proposal that would have the effect of removing certain income from the availability of individuals in the United States at this time, but make it available at a later time for them to spend.

OSGOOD: Up went the Laird balloon until it came within range of Capitol Hill. There, Congressman Al Ullman, the Acting Chairman of the House Ways and Means Committee, threw rocks at him.

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FOR DEPARTMENT OF THE TREASURY

PROGRAM ABC Evening News STATION WMAL TV
ABC Network

DATE September 14, 1973 7:00 P.M. CITY Washington, D.C.

WHITE GLOVES FOR MELVIN LAIRD

HOWARD K. SMITH: There's some confusion on another economic matter: the White House counsel Melvin Laird's statement that the President is considering a ten percent income tax surcharge to be refunded later. In Tokyo, Treasury Secretary George Shultz said that that didn't sound to him like an idea whose time has come. He advised Mr. Laird, quote, "to keep his cotton-pickin' hands off economic policy." At the White House today a spokesman brushed that off as a misunderstanding, insisting there's no disagreement between the two men. And Secretary Shultz sent a subordinate over to Laird's office with a peace offering -- a pair of white gloves for Laird to wear while picking the cotton he's been told not to.

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CONGRESSMAN AL ULLMAN: I am quite opposed to that kind of concept at this time. I think that the economy will not merit it, and I do not think that at this point it would be equitable.

OSGOOD: On the Senate side, Louisiana's Russell Long refused to throw anything at the balloon. He would rather shoot down bills than balloons.

SENATOR RUSSELL B. LONG: I'm not going to support or oppose something that the President just might be thinking about. If he wants to recommend it, let him back it up and say why he things it should be done.

OSGOOD: As the trial balloon disappeared over the western horizon, Congressman Henry Reuss assessed its changes for success in these words.

CONGRESSMAN HENRY S. REUSS: I think the chances are close to zero for the simple reason that it's an extraordinarily bad idea. It sounds as if they're running in circles more than usual in the White House, and I don't think it'll be taken seriously, and I don't think it'll get anywhere.

OSGOOD: Laird's balloon was gaining speed and altitude, if not support, and as it passed over the State of California, Governor Ronald Reagan talked about it.

GOVERNOR RONALD REAGAN: I've not favoured that as a -- as a weapon against inflation. I hope it doesn't happen.

I understand that they've just been talking about various ways to get at the inflation thing. There is a difference of opinion back there within the Administration as to [sic] whether to or not.

OSGOOD: How true.

For now the balloon was out over the Pacific and headed toward Tokyo, where Treasury Secretary George Shultz was attending a trade conference.

He is not enthusiastic, to put it mildly, about the Laird tax increase balloon.

TREASURY SECRETARY GEORGE SHULTZ: When I left Washington the President's policy was to hold down spending and not increase taxes.

OSGOOD: And finally it was Secretary Shultz who shot down Melvin Lairds balloon for good with the following dart.

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SECRETARY SHULTZ: He always gives press conferences on economic subjects, I think, when I'm away. He did the same thing to me when I was in Paris trying to negotiate a monetary rearrangement and talked about the exchange value of the dollar, and here I am in Tokyo and he's sounding off about taxes. So you'd better ask him.

I think the President's adviser on domestic affairs can keep his cotton pickin' hands off the economic policy for a change.

OSGOOD: So, if you know anybody who'd like to buy a slightly used trial balloon flown only once, contact Melvin Laird of Washington, D.C. He can tell you where to get one cheap.

Charles Osgood, CBS News.

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FOR DEPARTMENT OF THE TREASURY

PROGRAM Mutual News

STATION WAVA Radio
Mutual Network

DATE September 15, 1973 11:00 AM

CITY Washington, DC

LAIRD GETS WARNING FROM SHULTZ

KEVIN KENNEDY: Trial balloon or not, the recent story dealing with a new ten percent tax surcharge has caused an uproar.

Mutual's Bill Greenwood has more.

BILL GREENWOOD: Questions are being raised about the Administration's motives in saying the President has been studying the idea of a refundable tax increase.

If the disclosure by Melvin Laird was a trial balloon, it may have already run out of air. Congressional leaders promptly denounced the idea of higher taxes, and Treasury Secretary George Shultz, bluntly warned Laird to keep his "cotton pickin' hands off economic policies."

TREASURY SECRETARY GEORGE SHULTZ: I don't know about this Laird press conference. And he always gives press conferences on economic subjects when I'm away. He...

[Laughter]

He did this to me when I was in Paris trying to negotiate a monetary rearrangement and sounded off about the exchange values of the dollar. And here I am in Tokyo and he's sounding off about taxes. So you better ask him.

LEVINE: What emerges from all this is that the White House is not proposing a tax increase at this time, and Congress wouldn't pass one anyway. More important, the flurry shows the rifts among President Nixon's economic advisors -- rifts that will not make it any easier to deal effectively with inflation.

Irving R. Levine, NBC News, Washington.

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

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FOR RELEASE 6:30 P.M. September 17, 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 20, 1973, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing December 20, 1973		26-week bills maturing March 21, 1974	
	Price	Equivalent annual rate	Price	Equivalent annual rate
High	97.808 a/	8.672%	95.548 b/	8.806%
Low	97.776	8.798%	95.532	8.838%
Average	97.779	8.786% 1/	95.535	8.832% 1/

a/ Excepting 1 tender of $10,000; b/ Excepting 2 tenders totaling $430,000
Tenders at the low price for the 13-week bills were allotted 67%.
Tenders at the low price for the 26-week bills were allotted 74%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 54,830,000	$ 51,700,000	$ 41,355,000	$ 16,055,000
New York	3,163,230,000	1,871,280,000	4,101,120,000	1,547,050,000
Philadelphia	50,945,000	35,625,000	11,895,000	11,785,000
Cleveland	41,850,000	40,430,000	70,605,000	23,255,000
Richmond	36,450,000	31,440,000	31,935,000	16,425,000
Atlanta	31,110,000	28,465,000	19,815,000	15,870,000
Chicago	288,485,000	131,040,000	448,040,000	29,420,000
St. Louis	65,465,000	36,800,000	87,735,000	22,785,000
Minneapolis	45,105,000	34,605,000	35,650,000	5,050,000
Kansas City	53,680,000	35,230,000	37,315,000	24,030,000
Dallas	47,525,000	18,025,000	35,425,000	11,925,000
San Francisco	234,515,000	186,225,000	454,335,000	78,725,000
TOTALS	$4,113,190,000	$2,500,865,000 c/	$5,375,225,000	$1,802,375,000 d/

c/ Includes $409,920,000 noncompetitive tenders accepted at the average price.
d/ Includes $242,180,000 noncompetitive tenders accepted at the average price.
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 9.11% for the 13-week bills, and 9.37 % for the 26-week bills.

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

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FOR IMMEDIATE RELEASE September 18, 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 27, 1973, in the amount of \$ 4,309,795,000 as follows:

91-day bills (to maturity date) to be issued September 27, 1973, in the amount of \$ 2,500,000,000, or thereabouts, representing an additional amount of bills dated June 28, 1973, and to mature December 27, 1973 (CUSIP No. 912793 SK3) originally issued in the amount of \$ 1,701,130,000, the additional and original bills to be freely interchangeable.

182-day bills, for \$ 1,800,000,000, or thereabouts, to be dated September 27, 1973, and to mature March 28, 1974 (CUSIP No. 912793 TE6).

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, September 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

(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 September 27, 1973, in cash or other immediately available funds or in a like face amount of Treasury bills maturing September 27, 1973. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder must include in his income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

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

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

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FOR IMMEDIATE RELEASE September 19, 1973

TREASURY SECRETARY SHULTZ NAMES DURWARD A. LYON
AS NEW U. S. SAVINGS BONDS CHAIRMAN FOR OKLAHOMA

Durward A. Lyon, Senior Vice President, Wilson & Co., Inc., Oklahoma City, is newly appointed Volunteer State Chairman for Savings Bonds by Treasury Secretary George P. Shultz, effective immediately.

He will head a select committee of business, banking, labor, government, and media leaders, who -- in cooperation with the Savings Bonds Division -- assist in promoting Bond sales in Oklahoma.

Lyon is a native of Toledo, Iowa, and attended Iowa State University, from which he received a BS Degree in Animal Husbandry. During both World War Two and the Korean Conflict, he served as a Sergeant in the Army Infantry.

He joined Wilson in 1950, in the Provisions Department of the company's Chicago plant. In 1956, he was named Provisions Manager of the Omaha plant and, in 1958, became Administrative Assistant to the Plant Manager. In 1961, Lyon was appointed Manager of the Kansas City plant. Four years later, he became Vice President in Charge of Wilson Operations Group, and was elected a Director.

In 1970, Lyon was named President and Chief Executive Officer of Wilson Certified Foods, Inc., one of four publicly-held subsidiaries formed that year. When they were consolidated into a new Wilson & Co., Inc., earlier this year, he was named Senior Vice President.

Lyon is a well-known figure in the meat industry. He is a member of the Pork and Beef Committees of the American Meat Institute. He is active in numerous business and civic organizations, including -- member of the Board of Trustees, Mercy Hospital, and Director, Liberty National Bank of Oklahoma City, Oklahoma State Chamber of Commerce, United Appeal, Junior Achievement, and Salvation Army.

He and his wife, Carolyn, have three children. Tim, 20, and Dennis, 19, are both students at Oklahoma State University, Stillwater. Mike, 16, is a student at McGuinness High School, Oklahoma City.

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REMARKS BY THE HONORABLE WILLIAM E. SIMON
DEPUTY SECRETARY OF THE TREASURY
CONSULTATIVE SEMINAR ON FINANCIAL REFORM
WEDNESDAY, SEPTEMBER 19, 1973, 10:00 A.M., EDT
ROOM 450, OLD EXECUTIVE OFFICE BUILDING

I appreciate your taking time to be with us today to review our proposals for improving the Nation's financial system, and to discuss the effects these recommendations will have on consumers.

In order to understand what must be done to prevent financial crises and assure adequate credit flows at reasonable interest rates, it is important to outline the present structure of our financial institutions, the relationship this structure has to recurring monetary and credit crises and the changes in that structure which we feel are so important.

Let me first briefly review what has happened in the economy since the beginning of the year.

Economic Growth

While total economic activity has continued to advance and unemployment has continued to decline, price performance during the first half of the year was most unsatisfactory. Consumer prices rose at an 8 percent annual rate in contrast to less than a 4 percent annual rate in the last half of 1972. Rates of advance of wholesale prices, especially for agricultural products and other raw materials, were extremely rapid in the

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first half of the year. Increases in food and petroleum-product prices have accounted for approximately 60 percent of the rise in both our consumer and wholesale price indexes since the end of 1972. Excluding these two commodities, the consumer price index rose at an annual rate of 3.8 percent in the first seven months of 1973 -- not markedly different from the inflation rate last year.

A number of factors combined to trigger this burst of inflation. Perhaps the single most important element over the past year has been the reduction in available supply of food because of bad weather and in some cases disasterously poor crops here and abroad. A second major element in the inflation problem is the world-wide economic boom. Every industrialized country has been simultaneously experiencing strong economic growth and this unusual development has put great pressure on the supplies and prices of industrial raw materials.

There is no mystery about the correct direction for government policies during such a period of intense inflationary pressure. Fiscal and monetary policies must work in tandem to exert a restraining influence on the economy. No wage-price control program, however well designed, however massively staffed, can make a contribution to the fight against inflation if total spending is pressing hard against productive capacity. In the present situation, there can be no ducking the need for

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restraint in fiscal and monetary policies if more serious inflationary risks are to be avoided.

Phase IV of the Economic Stabilization Program can help to moderate inflation. The main weapons, however, remain our general economic and financial policies, supplemented by special measures to encourage increased supplies of goods and services.

We have taken a number of such actions to increase supplies, including the removal of acreage set-aside requirements for farmers; removal of import quotas on oil; and the partial or complete removal of import quotas on non-fat dry milk, cheese, and meat. We are also -- within the limits imposed by current laws -- selling scarce metals and other commodities no longer needed in the Federal Government's stockpiles.

Financial Conditions and Interest Rates

These actions to increase supplies, along with fiscal and monetary restraint and the Phase IV program, are aimed at the problem of rising prices. However, there is another aspect of this picture that must be more widely understood; and that is the effect that inflation has on general financial conditions and on interest rates in particular.

All of us will readily agree that moderation is required in interest rates, and that some self-discipline is required to achieve this. We want interest rates to stay at reasonable levels to encourage business investment and enhance economic growth.

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But at the same time, we must recognize the special role interest rates play in regulating our economy. Credit is a crucial resource, because it is used by every sector of the economy. It is needed by every business to finance new plant and equipment, to finance the acquistion of inventories, and to provide working capital. But like all other resources, credit is a scarce commodity. When everybody wants more credit, there isn't enough to go around. Indeed, we would not want an unlimited supply of credit to be available, because an over-abundance of credit will very quickly send the economy into inflationary orbit.

Accordingly, when the economy approaches its full potential the demand for credit increases. When this happens, credit has to be rationed in some way. The method used by the free market to ration credit is to put a higher price on it -- that is, higher interest rates. Those higher rates act as a stabilizer, putting a damper on excessive spending. Thus when they are permitted to do so, interest rates act as a control mechanism -- a spur to the saver and a discipline on the borrower. This to me is the legitimate function of interest rates -- namely, to respond to supply and demand in the market place, and to reflect and help stabilize the economy.

Some people have suggested that it would help the economy to directly control interest rates. In my opinion, interest rate controls, far from helping the economy, badly distort it. All our experience demonstrates that.

For instance, one control mechanism that has distorted the economic picture has been the limitation on interest rates on consumer time and savings deposits. These restrictions were first imposed in the 1930's in the mistaken belief that excessive interest rate competition among financial institutions caused the bank failures of the era. However, the principal effect of these controls has been to deprive small savers of a fair interest return on their savings deposits. As you know, the Government moved this year to mitigate this type of discrimination against small savers by raising the permissible interest rate limits on time and savings deposits at commercial banks and thrift institutions. At present, however, the maximum that commerical banks and savings and loan associations may pay on their savings accounts is still only 5 percent and 5-1/4 percent, respectively. As a result, consumers are receiving 5 and 5-1/4 percent on their savings while consumer prices have been rising at an annual rate of 8 percent.

Financial Reform Proposals

Recognizing the need to reduce such discrimination against small savers and consumer-borrowers and to reduce distortions created by past control devices, the President has recently recommended basic changes in our financial system. A basic objective of these recommendations is to encourage banks, savings and loan associations, and other financial institutions to compete for the consumer's business. Just as it does in other areas, such competition will result in a better price to the consumer. And it is important for all of us to realize that in the end, it is the consumer who pays the bill for everything. Thus, the consumer -- whom you represent -- will ultimately bear the costs of an inefficient financial system or benefit from a reformed financial system.

Let me go back for a moment to tell you how these proposals came about. Events during the last decade revealed significant defects in our financial markets in general and our financial institutions in particular. The credit crunch of 1966, the monetary and gold crises of 1968 and the severe squeeze of 1969-1970 illustrated that our system does not adjust well to short-term changes in economic and financial conditions. In such situations, savings and loan associations and mutual savings banks, as they are currently structured, simply cannot get enough money because depositors look for better returns and deposit, or redeposit, their money elsewhere. The result is that home buyers are penalized by being unable to obtain mortgage money at any price.

Such problems cannot be resolved by piece-meal, interim changes in the financial system. In order to develop a permanent system that could provide sufficient freedom in our financial markets, the President established the Commission on Financial Structure and Regulation, popularly called the Hunt Commission. The Commission made some 80 recommendations. For 18 months, we have been studying these various proposals,

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among many others, and have brought together a legislative package which we will be presenting to Congress later this month. When our joint efforts result in legislation, it will be the first time in over 100 years that a major restructuring of this country's financial system was accomplished without the impetus of a real crises.

The present financial system is rigid, relatively inflexible, and not well suited to today's needs. Neither the consumer, the small businessman, nor the small saver nor lender are adequately served.

Generally, we are recommending that all deposit institutions -- commercial banks, savings and loan associations, mutual savings banks, and credit unions -- be permitted to offer a wider range of financial services, and that, after a period of transition, those institutions who wish to compete in financial markets be able to do so more or less equally.

Let me spell out the highlights of the reform recommendations.

Interest Payments on Deposits

The maximum interest rate now allowed on regular passbook savings accounts is 5 to 5-1/4 percent. We propose that these ceilings on interest rates for passbook deposits be eliminated, and we are suggesting that this elimination take place over a 5-1/2 year period, to allow banks and savings and loans to gradually adjust. Banks will then be allowed to pay the same interest rates as the S and L's.

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At the same time, we propose that checking accounts, and savings accounts on which checks may be written, be allowed for all institutions. The latter are technically termed NOW accounts or "negotiable orders of withdrawal" accounts. They are now available only from savings banks in Massachusetts and New Hampshire, and are quite similar to the standard checking accoun we are familiar with, but the deposit institution can pay intere on the account, and can legally require 30 days' notice before honoring a withdrawal. We also are proposing that these new checking-type accounts which pay interest be made available throughout the United States.

In short, banks and thrift institutions will be able to pay savers the going interest rate for their deposits. This means that the small saver will be able to get more of the benefits now going to the large saver.

Expanded Deposit Powers and Reserves

We recommend that Federal thrift institutions be allowed to make regular checking accounts, credit cards, and NOW account available to all customers.

We propose that State-chartered savings and loan associatic insured by the Federal Savings and Loan Insurance Corporation need not be members of the Federal Home Loan Bank System, just as State-chartered commercial banks need not be members of the Federal Reserve System. This would be an important strengthenin of the dual banking system, because it would give savings and loan associations the option to remain primarily under State supervision if they so wish, while still being able to provide the desirable Federal insurance for their depositors.

Expanded Lending and Investment Powers

It is proposed that savings and loan associations be authorized to make consumer loans, real estate loans, and interim construction loans under the same conditions as commerc banks. They would also be given authority to invest in loans, securities, or real estate for community welfare and developmen

We also propose that national banks be granted liberalized powers to make real estate loans.

All of these powers will result in direct benefits to the consumer because it will increase competition for the services which the consumer is seeking.

Charters for Thrift Institutions

We recommend that stock thrift institutions be permitted Federal charters, with powers identical to those of mutual savings and loan associations. Making Federal charters availa to these institutions would strengthen the dual banking system by providing them with a choice of supervisory authorities. State-chartered mutual savings banks could convert to a Federa charter and be granted all of the corresponding asset and liability powers of a Federal mutual thrift institution.

FHA and VA Interest Ceilings

The Administration recommends removal of ceilings on interest rates charged on mortgages insured by the Federal Housing Administration and guaranteed by the Veterans Administration. It has been apparent for some time that these ceilings have not kept mortgage interest rates down. This is evidence by the widespread use of "points"--that is, buying mortgages at a discount.

Central Fund for Credit Unions

We recommend establishment of a Central Discount Fund for insured credit unions, whether Federal or State insured, to meet emergency, temporary liquidity needs. Capital for this fund would be obtained from subscriptions by credit unions that wish to join, and the fund would be managed by the National Credit Union Administration.

Taxes

We recommend that the special tax benefits now granted to thrift institutions be eliminated to achieve "tax neutrality." Thus, a given investment or loan would be subject to the same income tax provisions--regardless of the type of financial institution making the investment or loan. This would permit institutions engaging in the same activities--mortgage lending, for example--to compete on an equal footing.

Since thrift institutions would lose their existing special tax benefits, we propose that they be compensated for the loss by a new tax credit, for interest earned from the residential mortgages they hold. This credit would be made available also to all taxpayers--that is, commercial banks, insurance companies and individuals--and would serve as an incentive to attract money into the mortgage market.

This is a very complicated area and we want to structure a tax credit that will assure an adequate supply of funds for the residential mortgage market.

Conclusion

To summarize, these proposals are based on the premise that free market competition provides the best service to the public at lowest cost. The consumer will receive a fairer return on his savings accounts. Many more financial institutions will be able to provide him with a full range of services, including mortgage loans, checking accounts, and personal loans. This should provide additional incentives to consumers to save, especially when money is tight. At the same time, overall intere rates on loans to consumer borrowers should average lower because of the new rivalry and competition between banks, S and Ls, and other lending institutions.

Consumers would also gain one-stop financial shopping conven Instead of going to a bank for a checking account and auto loan, and to an S and L for a mortgage, the consumer could get all these services from the same institution.

Our proposals are also designed to ensure a steadier flow of loan funds to home buyers inasmuch as all lending institutions will be free to pay sufficient interest on deposits to attract new savings, even when interest rates are rapidly rising. This means that they will have new funds available for making home mortgage loans.

Viewed in the context of our overall economic policy, our recommendations for changes in the structure of our financial institutions are essential. Coupled with sound fiscal and monetary policy, these changes will enable our institutions to operate normally through periods of economic change and help provide the proper foundation for stable economic growth. And all interests -- commercial banks, thrift institutions, and especially consumers -- will benefit.

Thank you.

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FOR RELEASE UPON DELIVERY
FRIDAY, SEPTEMBER 21, 1973, 10 A.M., EDT

EXCERPTS FROM REMARKS BY JAY N. WOODWORTH
DEPUTY TO THE ASSISTANT SECRETARY OF THE TREASURY
FOR ECONOMIC POLICY
AT THE
1973 ANNUAL MEETING OF THE
DRUG, CHEMICAL AND ALLIED TRADES ASSOCIATION, INC.
BUCK HILL FALLS, PENNSYLVANIA
SEPTEMBER 21, 1973

The system of formal wage and price controls -- unprecedented in our peacetime economic history -- is now in its third year, yet inflation remains the nation's Number One economic problem. What's wrong with the system; why hasn't inflation slowed; and what will make price advances moderate in the near future?

The answers to these questions are complex and full of unknowns. As you may have noticed, there is broad disagreement on these issues even among professional economists. At the annual meeting of the National Association of Business Economists in New York last week, the general view seemed to be that strong inflationary pressures would continue into 1974 but the worst of our food price inflation was probably behind us.

Food price increases have, indeed, dominated the rise in overall consumer prices this year, and, of course, a rise in food prices is the most visible and sensitive price change noted by American consumers. Ranking second, perhaps, on the list of price visibility would be gasoline prices, which have also soared in 1973. Together, consumer food and gasoline price increases have accounted for nearly two-thirds of the rise in total consumer prices during 1973, although they amount to less than one-fourth of the average urban family's expenditures.

One interesting observation is that non-food, non-gasoline consumer prices have not accelerated this year from their relatively slow 1972 pace: During the first seven months of 1973, these prices rose at a 3.4 percent annual rate. While I recognize that no family budget can exclude the effects of rising food and fuel prices -- as my wife frequently reminds me -- this approach can, nevertheless, suggest a possible outcome to the nation's inflation struggle. The farm and food price inflation is one aspect of the broad raw materials and commodity-based inflation that has swept through the wholesale price index over the past year, unnoticed by most consumers but highly visible to most businessmen in the United States and other industrialized nations.

The world has experienced previous encounters with rapid inflation in prices of grain and soybeans, meat, copper, cotton, scrap steel, and a host of other commodities that are traded in world markets. One fact that should be remembered is that commodity prices can not only rise but can also decline rapidly, unlike so many other prices that seem to be capable of movement in just an upward direction. Unprecedented growth in the combined economies of the United States, Japan, and most Western nations has been a primary factor in producing shortages of many raw materials and driving up prices. These prices can decline, however, when increased supplies become available, coupled with the gradual slowdown in the growth of final demand that is now occurring in the U. S. economy.

To speed these declines on the food price front, the Administration has taken a long list of farm policy and other major supply actions over the past 15 months. In effect, the agricultural sector of our economy will be operating at full throttle, without acreage set-aside requirements or other supply-restricting regulations. In addition, the Administration has removed or relaxed import restrictions on such key agricultural commodities as red meat, cheese, and non-fat dry milk, as well as on other commodities, including crude oil. The removal of these and other restraints on agricultural output, together with current price levels, will encourage further increases in crop production next year on top of this year's very large gains. These developments will eventually result in farm price declines, and it is possible that we have already witnessed peak prices on some agricultural commodities.

While a broad range of supply actions are being used to combat the volatile commodity prices, other measures

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have been taken to insure that the favorable performance of wages and non-food prices is continued. The Federal Government's fiscal and monetary policies are working in tandem to exert a restraining influence on the economy. These budgetary and financial policies can help prevent a burst of economic activity that might produce broad inflationary pressures beyond the raw materials price problem, while also insuring that restrictive policies do not push the economy toward an unwanted recession.

Finally, Phase IV of the Economic Stabilization Program is helping to moderate inflation. Phase IV, which in many ways is even tougher than the popular Phase II, is designed to spread the inevitable bulge of post-Freeze II price increases over a period of several months and to minimize the impact of inflationary pressures thereafter. This program is also designed to fit the different circumstances of various industries. As a result, some industries, notably food and petroleum, are operating under special rules, while other industries will over time be exempted from price controls based on their own favorable price track record.

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FOR RELEASE 6:30 P.M. September 19, 1973

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for $1.8 billion of 52-week Treasury bills to be dated September 25, 1973, and to mature September 24, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS: (Excepting 2 tenders totaling $3,030,000)

High	-	91.931	Equivalent annual rate 7.980%
Low	-	91.782	Equivalent annual rate 8.128%
Average	-	91.853	Equivalent annual rate 8.057% 1/

Tenders at the low price were allotted 9%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	
Boston	$ 27,890,000	$ 17,790,000	
New York	2,496,860,000	1,484,295,000	
Philadelphia	28,865,000	18,865,000	
Cleveland	8,790,000	8,790,000	
Richmond	5,050,000	5,040,000	
Atlanta	12,830,000	8,330,000	
Chicago	199,250,000	89,750,000	
St. Louis	48,265,000	19,755,000	
Minneapolis	20,595,000	15,545,000	
Kansas City	18,220,000	9,825,000	
Dallas	29,150,000	13,150,000	
San Francisco	148,885,000	108,885,000	
TOTALS	$3,044,650,000	$1,800,020,000	2/

1/ This is on a bank discount basis. The equivalent coupon issue yield is 8.71.

2/ Includes $ 84,820,000 noncompetitive tenders accepted at the average price.

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U.S. Delegation
IBRD-IFC-IDA-IMF
Annual Meetings, September 24-28, 1973
Nairobi

UNITED STATES DELEGATION
(Tentative: As of Sept. 19th)

GOVERNOR

George P. Shultz, Secretary of the Treasury

ALTERNATE GOVERNORS (DESIGNATE)

Arthur F. Burns, Chairman, Federal Reserve Board (Fund)
William J. Casey, Under Secretary for Economic Affairs, State Department (Bank)

TEMPORARY ALTERNATE GOVERNORS

Paul A. Volcker, Under Secretary for Monetary Affairs, Treasury Department
John M. Hennessy, Assistant Secretary for International Affairs, Treasury Department
William B. Dale, U.S. Executive Director, IMF
Charles O. Sethness, U.S. Executive Director, IBRD

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House Appropriations Committee

Representative Tom Bevill of Alabama
Representative John J. Rhodes of Arizona

House Banking and Currency Committee

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Representative Henry S. Reuss of Wisconsin
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Representative Thomas L. Ashley of Ohio
Representative Ben B. Blackburn of Georgia
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Representative James M. Hanley of New York
Representative Clair W. Burgener of California
Representative Matthew J. Rinaldo of New Jersey
Representative Andrew Young of Georgia
Representative Lindy Boggs of Louisiana

House Rules Committee

Representative Gillis W. Long of Louisiana

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Weintraub, Sidney,	Deputy Assistant Secretary for International Finance and Development, Bureau of Economic and Business Affairs, State Department
Widman, F. Lisle,	Director, Office of International Monetary Affairs, Treasury Department
Willis, George H.,	Deputy to the Assistant Secretary for International Monetary Affairs, Treasury Department

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FOR RELEASE THURSDAY
SEPTEMBER 20, 1973, 4:30 P.M., EDT

REMARKS OF JOHN H. HALL
DEPUTY ASSISTANT SECRETARY OF THE TREASURY FOR TAX POLICY
BEFORE THE CALIFORNIA CERTIFIED PUBLIC ACCOUNTANTS FOUNDATION
LOS ANGELES, CALIFORNIA, SEPTEMBER 20, 1973, 1:30 P.M., PDT.

LEGISLATIVE OUTLOOK FOR TAX SHELTERS

It is a real pleasure to be back home with you again in California and to have an opportunity to address you on tax shelters.

Any self-respecting address on tax shelters has to start with a definition, so I'll give you mine. As I use the term, a tax shelter is an investment made in whole or substantial part with pre-tax dollars, commonly referred to in the trade as soft dollars. Where you can avoid or delay turning over tax dollars to Uncle Sam by investing them instead in a tax-loss producing enterprise, you have a shelter. Uncle Sam is making part or all of your investment for you. If you can invest hard dollars in something --say municipal bonds-- which throws off exempt income, that presents its own policy questions of course, but I don't call it a shelter.

So that we can all understand each other better, let me give you some of the background for the Administration's Limitation on Artificial Accounting Losses (LAL)

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proposals. First of all, if you will forgive me a personal note, I have been with the Treasury a little over a year. Before that I practiced tax law in Los Angeles. A substantial part of my duties consisted of setting up tax shelters. With our advice, our clients set up and sold syndicates in oil, in real estate, and in agriculture--feeding and breeding. Now they say there is no zealot like a reformed sinner. But when I joined the Treasury it was not like Paul on the Road to Damascus, who in a blinding flash decided to join the Christians he had been persecuting. As long as the tax law in fact permits tax shelters, if you think you or your client have a good economic investment, more power to you. I make no apologies for having advised people in this area, nor do I urge you to cease doing so. From my new tax policy vantage-point, however, it is clear that tax shelters present some very real and disturbing problems. Let me tell you what they are, and you may better understand the reasons for the Administration's proposals in this area, and form some conclusions of your own with respect to the strength of our case, on which I believe depends in large part the prospects for enactment of restrictive legislation at this session of Congress.

The first point I want to make is purely statistical. During the last few years there has been an astonishing increase in tax losses reported by partnerships reporting

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losses in the major tax shelter industries. I place emphasis on partnerships, because in the same industries the increase has been nowhere near as striking for corporations or proprietorships. There are, of course, plenty of proprietorships in the tax shelter business--private drilling deals for example--and there are corporations which buy into shelters to shelter corporate income from other activities. But you and I know from experience that the partnership form dominates the market in deductions. So when partnership losses in these industries grow enormously while losses reported by loss proprietorships and corporations grow much more sedately, we have a pretty good idea that tax shelter operations are largely responsible. In the six years between 1965 and 1971, aggregate net losses reported by all partnerships reporting losses in the livestock industry increased 178%; in real estate by 330%; and in crude petroleum and natural gas by 812%. The increase for all the major tax shelter industries combined was 372%. In 1965 partnerships in these industries reported $0.9 billion of net losses and $1.4 billion of net profits. By 1971 the figures had dramatically reversed. Losses reported were $4.2 billion and profits $2.4 billion.

We should not be too surprised by the burgeoning demand for deductions. The once sparsely populated upper brackets where people start to look seriously for shelter (say 40% or 50% and up) have become increasingly crowded as inflationary forces and rising real incomes have begun to move much larger numbers of people into such high levels of taxable income. No longer the domain of a limited number of financial sophisticates, the market for deductions has become a mass market. This trend will undoubtedly continue as long as rates are high and taxpayers prefer not to pay. The 1971 figures I quoted are the latest tax return figures we have as yet on partnership losses, but we do have indications that the trend has continued unabated into 1972 and 1973. For example, the National Association of Securities Dealers reported an increase, just between 1971 and 1972, of 61% in the number of registered filings of tax shelters, and a 106% increase in the dollar volume. While not all of these registered offerings are in fact sold, we also consider it significant that in a two-year period, publicly offered tax shelter filings increased from 145 in 1970 to 539 in 1972; the dollar volume more than tripled in those two years.

At Treasury, we find important policy implications in all this. Let me start with perhaps the least of these --but still significant-- the direct revenue loss. With a fast-growing multi-billion dollar market for deductions --for artificial tax losses deliberately created to shelter your regular income from tax-- the Treasury is deprived of substantial revenue. Precise estimates of how much are surprisingly difficult to come by, for reasons I needn't bore you with, but it seems almost certain that we face revenue losses in 1973 of well over $1 billion from these activities. The numbers, therefore, are beginning to become quite significant.

A second troublesome aspect of the burgeoning tax-shelter market grows naturally out of the merchandise being sold --namely tax losses. In this remarkable field, the greater the losses, the more salable the investment. The choicest deal of all is the one where you get to lose more than your total investment. As you know this is quite possible with the help of high leverage and an assist from the Crane case. Now of course nobody deliberately buys into true, or economic losses. The syndicated shelter promises the hope of economic gains, but advertises the certainty of immediate writeoffs, and all the magic is in the latter. The consequence of this is an unseemly scramble to promise more losses than promised by the next competing shelter, all of which --in the context of a self-assessment tax-- leads to the sale of deductions which really aren't there -which won't withstand audit. Just from the standpoint of current law, there are too many deals deducting prepaid management fees; prepaid interest deductions which may well not withstand the material distortion test are still merchandised; fanciful and unsupportable useful lives for depreciation are being claimed, and the like. Moreover, I suspect that when an investor has claimed deductions in excess of his investment, he may fail to report the correlative income when he disposes of or abandons the investment. I could go on, but you are as aware of these problems as I am. There is frequently a lot of puffing in the claimed deduction figures, as the investors find out to their sorrow on audit some years after they first hear the promoter's glowing promises of tax losses.

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And the same promotional talents which enable people successfully to sell out a syndicate are not necessarily well-adapted subsequently to the scrupulous turning of square corners which one must perform in order to shepherd this kind of deductions past the tax collector's watchful eye. Instead of minding the store, your promoter is likely to be out selling the next syndicate. In a fast-developing area of the law where little is certain besides change, it is the nimble and well-advised tax shelter syndicator who can avoid the snares set for him, not only by yesterday's Court decision or revenue ruling, but also tomorrow's. This kind of enterprise just naturally breeds audits, and is very productive of deficiencies. A substantial amount of revenue agent's time which cannot readily be spared has to be spent in policing this area.

Third, and from our policy viewpoint more important, the widely-observed spectacle of great masses of upper-income people buying tax shelters as an alternative to paying the prescribed taxes on their income has a demoralizing impact on those somewhat farther down the income scale and for whom Governor Reagan's prescription that taxes should hurt expresses grim reality. In our self-assessment tax system, anything which can lead to erosion of compliance levels can only be viewed with the utmost seriousness. I don't need to belabor this point, but I will just illustrate it with a recent scene from the TV show "All in the Family". Archie Bunker was making a little extra money driving a cab on weekends. He was asked: "Archie, do you report your income from this to the Internal Revenue Service?" "No", said Archie, "the millionaires have their tax shelter-- this is <u>my</u> tax shelter." While an accountant or lawyer can appreciate the fine line between avoidance and evasion, the notion that paying taxes is optional <u>only</u> if appropriate avoidance mechanisms are employed, may be a bit too subtle for Archie Bunker.

Last in the list of policy reasons for desiring to reverse the recent growth of tax shelters is the unfortunate and growing waste of scarce capital resources which the shelter industry so frequently entails. While there is a crying need for more capital and increased production in petroleum, agriculture and housing, the diversion of economic resources into the pursuit of deductions frequently results in investments of an uneconomic nature. To be blunt, a lot of tax shelter money goes into unworthwhile economic deals which offer the most glittering promises of deductions. Meanwhile, there is no such abundance

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of capital in the country that we can afford to see billions of dollars used with less than optimum productivity.

I think that what I have said may explain why we reached the conclusion that sound tax policy requires that something be done to stem the tide of syndicated tax shelters. But what should be done? The large recent influx of shelter-oriented money, particularly into oil drilling, cattle feeding and apartment houses, has accustomed those industries to dependence on such capital sources, and incidentally has tended to drive down rates of return for non-tax shelter oriented long-time investors in those fields. Because these industries are all vital to our economy, it is desirable to free them from their economic dependence for capital on outside tax shelter money as promptly as possible, before the industries become completely addicted and effective counteraction becomes politically impossible, and with the least possible painful withdrawal symptoms. Ideally, we should prune away the excesses with a minimum loss of needed capital inflows.

There is some room for an administrative attack on tax shelters, even without new legislation, and you will see us continue to examine possible steps in that direction in the months to come. But as long as the basic tax principles of partnership flow-through, cash-method accounting, leverage, and such basic deductions as accelerated depreciation and intangible drilling expenses are retained, I am not optimistic that any fundamental relief will be achieved by administrative means. And we have no intention or desire to disturb those basic principles. Nimble tax practitioners will, as is their calling, find ways to live with any new substantive rules which are promulgated at the administrative level, and will still achieve tax shelter for their clients. If, for example, we were to determine that prepaid feed is non-deductible, and make it stick in Court, the cattle-feeding shelters can easily achieve similar results by purchasing feeder cattle and feed in July and selling fat cattle the next January--without using any prepaid feed at all. If you say that all limited partnerships are associations taxable as corporations--even assuming you can get the Courts to buy it--you would then begin to see tax shelters in the form of general partnerships, replete with non-recourse financing and appropriate guarantees. And so forth. And even if you could administratively put an end to one particular kind of shelter, the market for deductions would simply divert the shelter-seeking capital into those that remain. If a pail has three leaks in it, the energy involved in plugging only one or two is not worthwhile. It is, therefore, our view that legislation is required as the primary remedy. And out of this conviction has come the proposal we call LAL--for Limitation on Artificial Accounting Losses.

I don't at this point plan to go into detail on what LAL is because I assume that as accountants you are generally familiar with the proposal. The intended effect of LAL is to require that new investments of outside money in tax-preferred industries be made with hard dollars. In other words, <u>first</u> you pay the tax on your regular income as a CPA; then you may invest in any attractive opportunity you find.

If you then have an economic loss--as distinguished from a mere tax loss--you can claim it for tax purposes against your other income. For example, if you drill a dry hole, that is an economic loss and you could claim it against your accounting fees. But if you strike oil, you couldn't claim your intangible drilling expenses as an immediate deduction against your fees--you have an artificial accounting loss, not an economic loss. But if you are in the oil business you can use the deduction against other oil and gas income. The basic reasons for the LAL approach are not complicated. It is a reasonably complete solution to the demanding problems of syndicated shelters. The proposal has sufficient flexibility to be applied to imaginative new shelter ideas, such as the Mexican rollover, or the rosebush shelter, as they are devised. While it still permits an investor to shelter all or part of the income from his investment in oil, cattle or housing, the investment itself will have to be in hard dollars--the investor's outside income will no longer be sheltered. We believe that when all of the money invested is that of the investor himself and not the Government, more care will be used in selecting economically desirable investments. And at the same time, the long-time bona fide operator in the industry will have less unfair competition from those who are really more interested in deductions than in, say, cattle.

We have heard very little real argument against the principle of LAL. What complaints we have received have

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been primarily to the effect that the industries will be damaged by being deprived of shelter syndicates as a source of capital. Our economists, however, do not consider these complaints to be altogether convincing. While we cannot rule out the possibility of short run transitional problems while the streams of capital form new channels, before too long market forces will insure that capital is found wherever a superior investment opportunity exists offering a better than normal rate of return. We will be able to do a lot with transition rules to mitigate the transitional problems.

We do expect to see more careful utilization of capital from hard-dollar outside investors, from corporations, and from those in the industry. The present economic waste will be minimized. And not paying taxes should become a less viable option for those who are now active in the deduction market.

Because of the Administration's intense concern about existing and potential energy shortages, I want to say just a word about the impact of LAL on oil and gas exploration. The Administration's total tax reform package is carefully designed to increase rather than diminish the flow of capital into the vital new-field wildcats. First of all, LAL will not apply unless your well is successful. The great majority--perhaps 90%--of new field wildcats are unsuccessful, and for dry holes LAL will normally not have any effect. At most, it will defer the drilling deductions a year if the drilling straddles a taxable year-end. Secondly, if the well succeeds, the intangible drilling expense deduction is not lost, but simply suspended until you have oil income against which it may be written off. Third, if you meet the two-mile or 3,000 foot spacing requirement, a successful new wildcat will enjoy a 12% drilling investment credit, in addition to preexisting tax benefits. The net effect of all this should be not to divert capital from domestic exploratory drilling, but to bring capital into this essential activity, perhaps away from development drilling. Because of the year-end straddle problem, we would expect that drilling will tend to start a little earlier in the year.

We have heard complaints that our two mile spacing requirement is too restrictive, especially as to onshore drilling, and we have been studying this problem. Our

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intention is to provide to the industry, through the drilling credit, about the same number of tax dollars as those which will be gained from the petroleum industry through the LAL proposal. The new rules will redirect investment into the new-field wildcats where risk money is most required for our long-run energy needs.

We have also heard suggestions that particular lines of business should be exempted from LAL, because of their importance to the economy. This suggestion, however, would render the proposal virtually useless. As I said, you have to plug all the leaks in the bucket before it will hold water. And if we are to bring to an end the era of the syndicated merchandising of tax losses, as I believe we should, we gain few if any of our policy objectives if we leave any such opportunities in full effect.

Now the advertised topic of this talk is "Legislative Outlook for Tax Shelters". Although I have been talking about the case for restricting these shelters, I have really also been talking about the Legislative Prospects. For there is plenty of political muscle behind the tax shelter industry. And if the case for restricting shelters is not a strong one, the outlook for enactment is slight. I believe the case is strong, and the kind of points I have been making to you we will also be making in richer detail to the Congress. You will have to be the judge of how this will strike the Congress. Preliminary indications at least are favorable for enactment of substantial restrictions on shelters. The scandal element has grown in parallel with the astounding growth of the tax shelter industry. I cannot speak for the staffs of the tax-writing committees, but informal conversations with some of them leave me in no doubt that they are as aware of, and concerned by, the proliferation of shelters as we are. And Representative Wilbur Mills said on August 27 that he, too, is concerned about tax shelters. He said, "The Committee intends to examine these shelters with great care and to provide appropriate remedial action. In doing this, however, we must be sure that we are not endangering any economic activity which is essential to the nation."

As far as timing is concerned, I see no real chance of action in 1973. However, I would expect the Ways and Means Committee to be tackling the subject of tax

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reform in earnest early in 1974. I expect shelters to be very high on their list. I cannot, of course, predict with any assurance what Congress will do, but I think the case for restricting tax shelters is a strong one on the merits, and that affirmative action is very likely to be taken next year.

Thank you.

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

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FOR RELEASE FRIDAY, SEPTEMBER 21,1973

JULY AND 2ND QUARTER 1973 OIL PRICES RELEASED

The average price of East Coast tanker, pipeline and barge quantities of residual fuel oil delivered to purchasers for resale remained at $4.00 a barrel during July, 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 $2.56 a barrel in June to $3.09 a barrel in July. 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 July, an increase of 16 cents from June.

For tanker, pipeline and barge quantities, East Coast marketers paid an average of $4.39 a barrel for residual fuel oil with sulfur content of one percent maximum, an increase of 19 cents from June; and $2.93 a barrel for oil with sulfur content over 2.2 percent, a 10-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 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-288

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

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

JULY 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	$3.09	$3.73	$NR [4/]	$NR	$NR	$--	$4.82	$NR	$NR
2. Truck or tank car	4.35	3.95	4.68	4.09	4.42	5.06	4.57	3.94	NR	3.05
B. To electric utilities:										
1. Tanker or pipeline	4.00	4.53	4.55	NR	4.19	--	3.79	NR	3.43	NR
2. Barge	4.09	4.76	NR	NR	4.66	NR	3.79	4.84	3.91	NR
3. Truck or tank car	4.30	--	NR	--	--	--	--	--	4.27	--
C. To other consumers:										
1. Barge	4.10	3.29	4.84	NR	4.57	NR	4.27	3.18	3.04	3.24
2. Truck or tank car	4.44	3.55	4.67	3.36	4.99	4.74	4.27	3.74	3.51	3.09

PART II. PURCHASES BY MARKETERS Tanker, Pipeline or Barge	All Regions	Region A	Region B	Region C	Region D
Sulfur content:					
A. 1% maximum	$4.39	$4.69	$4.63	$4.41	$NR
B. Over 1% thru 1.5%	NR	--	NR	--	--
C. Over 1.5% thru 2.2%	NR	NR	--	--	NR
D. Over 2.2%	2.93	NR	--	NR	3.02

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

2nd QUARTER 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	$4.00	$2.85	$3.90	$NR 4/	$4.63	$NR	$4.32	$3.92	$NR	$NR
2. Truck or tank car	4.40	4.05	4.62	3.76	4.55	4.99	4.25	3.92	3.61	3.07
B. To electric utilities:										
1. Tanker or pipeline	3.90	4.48	4.23	NR	4.15	--	3.51	NR	3.40	NR
2. Barge	4.00	4.58	NR	NR	4.43	NR	3.78	4.65	3.78	NR
3. Truck or tank car	4.16	--	NR	--	5.00	--	--	--	4.08	--
C. To other consumers:										
1. Barge	3.77	3.15	4.67	NR	4.40	NR	3.79	2.91	2.79	3.17
2. Truck or tank car	4.44	3.46	4.65	2.90	4.89	4.54	4.24	3.67	3.33	2.97

PART II. PURCHASES BY MARKETERS Tanker, Pipeline or Barge	All Regions	Region A	Region B	Region C	Region D
Sulfur content:					
A. 1% maximum	$4.18	$4.18	$4.34	$4.15	$NR
B. Over 1% thru 1.5%	NR	NR	--	--	--
C. Over 1.5% thru 2.2%	2.91	2.91	2.89	--	NR
D. Over 2.2%	2.80	NR	NR	NR	2.84

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.

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FOR RELEASE: NOON, E.D.T.: MONDAY, SEPTEMBER 24, 1973

NEW REPORT SHOWS SHIFTS IN USES OF REVENUE SHARING FUNDS

(Boston, Mass) -- "More general revenue sharing money is now being used by state and local governments to meet operating costs than for capital improvements," Graham W. Watt, Director of the Treasury Department's Office of Revenue Sharing told city managers here today.

Watt's statement was based on a summary and analysis of 33,076 Planned Use Reports on which states and local governments had indicated to the Office of Revenue Sharing how they planned to use funds they received during the first six months of 1973. Watt released the findings in a report entitled <u>General Revenue Sharing -- the First Planned Use Reports.</u> The announcement was made at the annual meeting of the International City Management Association at the Sheraton - Boston Hotel.

The first revenue sharing payments, made in December of 1972 and January of 1973, had been used by many jurisdictions for capital purposes, according to a report issued by the Office of Revenue Sharing in June.

More than half of the $2.96 billion represented in the report issued today has been earmarked for operating and maintenance expenses of recipient governments.

Of the $1.25 billion to be spent for capital expenditures, $283 million is earmarked for education, health, social development and social services and housing and community development.

State governments will spend more than half of their funds in the field of education, the reports show. State governments plan to put $~~651~~.43 623.03 million into education, most of it for operating expenses. Local governments are spending another $28 million for capital projects related to education.

Densely populated areas of the country, especially cities with populations exceeding 10,000 are putting more of their money into public safety programs to provide operating funds for police and fire departments. Also being funded by local governments in densely populated areas are activities in environmental protection, health and recreation/culture.

In areas where population is more dispersed, priority in the use of the funds has been given to construction of public transportation facilities, especially roads and buildings for general governmental use.

Almost half of the $2.96 billion covered in the report is being used in such a way as to relieve tax pressures, especially to control increases in regressive local property taxes that have become more and more of a burden to low and middle-income taxpayers in recent years.

General revenue sharing is returning approximately $6 billion each year to state and local governments to be used as local needs demand. The Congress enacted the revenue sharing program late in 1972 to help local and state governments meet their heavy financial needs and to keep them financially sound.

One third of the funds are allocated to the states and the remaining two thirds are distributed among more than 38,000 cities, counties, towns, townships, Indian tribes and Alaskan native villages. State governments may expend the money for any activities that are legal uses of a state's own funds. Local governments may spend shared revenues for any capital purpose or to meet operating and maintenance costs in any one or more of eight very broad "priority expenditure" categories, including: public safety, environmental protection, public transportation, health, recreation, libraries, social services for the poor or aged, and financial administration.

The expenditure requirements are set forth in the State and Local Fiscal Assistance Act of 1972, signed into law by President Nixon on October 20, 1972. The Act also requires that Planned Use Reports be filed annually with Treasury Secretary George P. Shultz.

Approximately 5,000 jurisdictions did not file the forms on which today's announcement was based and are now not eligible for the quarterly payment to be made in October. The Office of Revenue Sharing will issue reminders to these units of government, and all money due them will be paid after the forms have been filed.

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September 24, 1973

General Revenue Sharing – the first Planned Use Reports

Office of Revenue Sharing

Department of the Treasury
Washington, D.C.
20226

September 24, 1973

General Revenue Sharing —the first Planned Use Reports

. . . a summary and analysis of Planned Use Reports for the Third Entitlement Period

Prepared by

Priscilla R. Crane, Manager of Public Affairs
Office of Revenue Sharing

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20402 - Price 35 cents
Stock Number 4800-00222

Introduction

A cornerstone of President Nixon's New Federalism, general revenue sharing is returning decision-making power and authority to states and local governments as more than $6 billion are distributed each year to be spent as state and local priorities demand.

The first data available from recipients on their plans for uses of shared revenues were reported on Planned Use Reports for the third entitlement period. This report is a summary and analysis of those data.

Because the State and Local Fiscal Assistance Act of 1972 (P.L. 92-512) established the general revenue sharing program retroactively, it was not possible to request Planned Use Reports for the first two entitlement periods. In fact, the law specifically exempts the first two entitlement periods from the reporting requirement.

GENERAL REVENUE SHARING ENTITLEMENT PERIODS AND AMOUNTS

Entitlement Period	*Dates*	*Amounts*
Period 1	1/1/72—6/30/72	$2.65 billion
Period 2	7/1/72—12/31/72	$2.65 billion
Period 3	1/1/73—6/30/73	$2.99 billion
Period 4	7/1/73—6/30/74	$6.05 billion
Period 5	7/1/74—6/30/75	$6.20 billion
Period 6	7/1/75—6/30/76	$6.35 billion
Period 7	7/1/76—12/31/76	$3.33 billion

N.B. General revenue sharing was enacted into law when President Nixon signed The State and Local Fiscal Assistance Act, in October of 1972. Payment of Period 1 funds was made in December, 1972. Period 2 funds were paid in January, 1973. Period 3 funds were paid in April and July of 1973.

Information concerning actual uses of all funds returned to state and local units of government for the first three entitlement periods (January 1, 1972-June 30, 1973) is, however, required of all recipient units of government.

Background

Planned Use Reports are required to be filed with the U.S. Treasury Department according to Section 121 (b) of the State and Local Fiscal

Assistance Act. The report for each entitlement period must be submitted before the beginning of the period and must set forth ". . . the amounts and purposes for which . . . (the recipient) . . . plans to spend or obligate the funds which it expects to receive during such period." The reports are filed on forms supplied for the purpose by the Office of Revenue Sharing of the U.S. Treasury Department.

Units of government that fail to file Planned Use Reports are considered in non-compliance with the law. Future payments of revenue sharing money will be withheld until the report has been filed.

Each recipient unit of government is required by law to have a copy of its Planned Use Report published in a general circulation newspaper in the geographic area in which the government operates. In addition, the news media—including bi-lingual news media—must be advised of the publication of the report.

The purpose of the publication requirement is to provide information to the general public about plans for uses of shared revenues locally. It is expected that dissemination of the information will stimulate public discussion of state and local priorities for uses of the funds. Discussion in turn, will lead to an increase in public participation in the decision-making process at the state and local levels. Accordingly, the planned uses for shared revenues may be changed before the money actually has been spent, appropriated or obligated.

Any changes that are made will be reflected on the Actual Use Reports that are filed subsequently.

State governments are permitted to spend their general revenue sharing funds in any area of activity in which they may spend the states' own funds. Units of local government may use shared revenues to make any capital expenditure authorized by local law or to meet operating and maintenance costs in any one or more of eight "priority expenditure" categories listed in Section 103 (a)(1) of the State and Local Fiscal Assistance Act, as follows:

(A) public safety (including law enforcement, fire protection, and building code enforcement),
(B) environmental protection (including sewage disposal, sanitation, and pollution abatement),
(C) public transportation (including transit systems and streets and roads),
(D) health,
(E) recreation,
(F) libraries,
(G) social services for the poor or aged, and
(H) financial administration.

Units of local government may not spend shared revenues for operating and maintenance expenses in the fields of education or general administration.

"Capital expenditures" are ordinarily defined by the recipients' own laws. Generally speaking, capital expenditures include purchases of land and facilities, construction projects, and repair and replacement of equipment. The purchase of ambulances or fire-fighting equipment, structural repairs to a school building, purchase of park land, and repairs of roads are among expenditures for capital purposes that have been brought to the attention of the Office of Revenue Sharing.

Findings

This report is based on tabulation of 33,076 Planned Use Report forms from states, cities, counties, townships, Indian tribes and Alaskan native villages involving some $2.955 billion of third entitlement period funds. Five thousand reports representing $30 million were not received in time to be included in this summary report. Approximately 12% of the states' money had not been allotted to particular areas of activity at the time the state Planned Use Reports were filed.

The data show that even in the first six months of operation of the general revenue sharing program, approximately half of the state and local governments in the United States planned to use shared revenues to relieve tax pressures (see table 1).

Almost half of the $2.96 billion represented in the third entitlement period reports is being spent in such a way as to reduce taxes, prevent an increase in taxes, prevent enactment of new taxes or reduce the amount of tax rate increase. This is a conservative figure, since many units of government have not yet ventured to predict the effect that the money will have on their total tax effort.

Contrary to early speculation, more money was earmarked for operating and maintenance expenses than for capital expenditures.

	O&M	*Capital*
State Governments	$770.20	$263.24
Local Governments	907.46	991.56
Totals	$1,677.66	$1,254.80

$—in millions of dollars.

State governments, for example, planned to spend three times as much money to meet operating and maintenance costs as to make capital expenditures (see table 4). A significant proportion of the states' operating and maintenance expenditures were to be made in the field of education. Of the $1.04 billion in third entitlement period funds that were allocated to state governments, 60% was to be spent for education, as follows: 50% ($515.92 million) for operating and maintenance costs and

10% ($107.11 million) for capital expenditures such as the construction of school buildings.*

Units of local government, on the other hand, planned to spend slightly more on capital expenditures than on operating and maintenance (see table 5). Of the $991.56 million to be spent on capital expenditures, most was to go into multi-purpose/general government (12%), transportation (11%) and public safety (10%). Of $907.46 of operating and maintenance expenditures, 25% were allotted to the field of public safety.

Of the $1.25 billion to be used by all units of government for capital expenditures, $283.23 million were intended to be spent in social service fields, as follows:

Social Service Capital Costs	*Local Governments*	*State Governments*
Education	$28.40	$107.11
Health	70.43	27.44
Social Devel./Servs.	12.81	2.54
Housing/Commun. Devel.	33.15	1.35
	$144.79	$138.44

$—in millions of dollars.

The reports show that by far the largest amounts of third entitlement period revenue sharing money were planned for use in the fields of public safety (police and fire protection) and education (see table 2).

The $696.40 million that recipients earmarked for public safety represents, for the most part, the plans of the more densely populated northeastern region of the United States.** Other densely populated areas in the country show intended heavy expenditures for public safety, as well. Cities with populations of 10,000 or more especially, tended to put larger amounts of their third entitlement period shared revenues into public safety (see table 3).

Where population is dense, in the northeast generally and in big cities elsewhere, money is needed to pay the cost of operating police and fire departments. In areas where population tends to be dispersed, priority is given to building public transportation facilities, especially roads, and multi-purpose or governmental facilities, such as office buildings. On Indian reservations and in Alaskan native villages, more money is being spent on programs to provide social services to the poor and/or aged than is being spent for the purpose by any other type of recipient government (see table 5).

* State funds spent in the field of education generally benefit local governments. It is to be expected that this use of state revenue sharing funds may help to relieve excessive local tax burdens in some areas.

** Regional breakdowns of data may be found in Tables 6-11.

State governments all over the country are earmarking more general revenue sharing money to support education than for any other function (see table 4). Some $651.43 million of the states' funds were spent for this purpose, of which $623.03 million were allocated to operating and maintenance costs. The remaining $28.39 million were spent by units of local government on capital projects related to education. Units of local government are prohibited by law from using shared revenues to pay operating and maintenance costs of education.

Conclusion

The first of the Planned Use Report data reflect one significant change in plans for uses of shared revenues in the third entitlement period as compared to the first two periods.

A survey made for the Office of Revenue Sharing in April of 1973 and released in June had concluded that most of the funds state and local governments had earmarked from their first and second entitlement period payments were to be spent on capital projects and other non-recurring expenditures.

Respondents to the April survey cited uncertainty about the future of general revenue sharing as having contributed to their early decisions. In addition, since payments were made by the Office of Revenue Sharing very soon after the program was signed into law, in December of 1972 and January of 1973, and in the middle of what was most governments' 1973 fiscal year, the first shared revenues were treated as unanticipated revenue.

Accordingly, the early payments were used in many communities to fund projects that had been deferred for want of money in the regular, annual operating budgets. These projects often involved repairs to public facilities and replacements of heavy equipment that communities had not been able to afford from their own revenues.

The third entitlement period planned uses indicate a trend away from these nonrecurring expenditures. More monies were earmarked for operating and maintenance expenses and for programs related to education, health, and social services generally.

These data will become even more sigificant when, in the next few months, we are able to make comparisons with communities' actual uses of revenue sharing money. Reports of actual uses of all funds received through June 30, 1973 were due to be returned to the Office of Revenue Sharing by September 1, 1973.

TABLE 1

THIRD ENTITLEMENT PERIOD: PLANNED USES

NATIONAL SUMMARY: EFFECTS ON DEBT AND TAXES

Total $ Reported

Local Governments	$1,915.94 million	
State Governments	1,038.99 million	
	$2,954.93 million	

Debt

Local Governments	9,090	will avoid or lessen debt increase (27.5%)
	22,213	no effect or too soon to predict (67.3%)
State Governments	9	will avoid or lessen debt increase (17.6%)
	42	no effect or too soon to predict (82.4%)

Taxes *

Local Governments	16,771	will reduce, prevent increase, prevent enactment or reduce amount of rate increase in taxes (50.8%)
	20,646	no effect or too soon to predict (62.5%)
State Governments	17	will reduce, prevent increase, prevent enactment or reduce amount of rate increase in taxes (33.8%)
	37	no effect or too soon to predict effect (66.7%)

* Respondents could check more than one category. Accordingly, the number of responses here exceeds 100% of the number of Planned Use Report forms received (i.e. 33,025 local government forms and 51 state government forms, including the District of Columbia).

TABLE 2

GENERAL REVENUE SHARING
THIRD ENTITLEMENT PERIOD
PLANNED USES
BY
CATEGORY OF EXPENDITURE

. . . in millions of dollars. Does not include funds allocated to "other".* Total funds reported $2.96 billion.

Category	*Amount Allocated*	*Percent of Total*
Public Safety	$696.40	23.5
Education	651.43	22.0
Transportation	388.75	13.1
General Government	311.70	10.5
Environment/Conservation	255.57	7.6
Health	173.99	5.9
Recreation/Culture	142.92	4.8
Social Services	109.09	3.7
Financial Administration	41.48	1.4
Housing/Community Development	37.43	1.3
Libraries	21.48	0.7
Economic Development	11.92	0.4

* This refers to money for which no plans have been made.

TABLE 3

LARGEST PLANNED EXPENDITURE *
CITIES AND COUNTIES BY SIZE

Population	*Cities*	*Counties*
Over 500,000	O&M/pub. Safety	Cap./Multi-purpose, general
250,000-499,999	O&M/pub. Safety	Cap./Multi-purpose, general
100,000-249,999	O&M/pub. Safety	Cap./Multi-purpose, general
25,000-99,999	O&M/pub. Safety	Cap./Multi-purpose, general
10,000-24,999	Cap./pub. Safety	Cap./Pub. Transport
5,000-9,999	Cap./pub. Safety	Cap./Pub. Transport
2,500-4,999	Cap./pub. Safety	Cap./Pub. Transport
Under 2,500	Cap./pub. Safety	Cap./Pub. Transport

O&H—Operating and Maintenance Expenses.
Cap—Capital Expenditures.
* Please see explanation of expenditure categories on page 2 of the text.

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TABLE 4

THIRD ENTITLEMENT PERIOD
STATE GOVERNMENT PLANNED USE REPORTS
(in millions of dollars)
And Percent of States' Funds in Each Use

Expenditure Categories	*Operating & Maintenance Planned Expenditures*	*Percent*	*Capital Planned Expenditures*	*Percent*
Gen. Govt.	$ 21.93	2.0	$ 55.16	5.3
Education	515.92	49.7	107.11	10.3
Health	17.00	1.6	27.44	2.7
Transport	27.94	2.7	26.51	2.6
Social Servs.	49.36	4.8	2.54	0.2
Housing/Comm. Devel.	2.93	0.3	1.35	0.1
Economic Devel.	2.56	0.2	1.04	0.1
Envir./Conserv.	3.71	0.4	10.83	1.0
Public Safety	11.91	1.2	9.24	0.9
Recreat/Culture	2.12	0.2	16.55	1.6
Others	114.82	11.1	5.47	0.5
Totals	$770.20	74.2	$263.24	25.3

TABLE 5

THIRD ENTITLEMENT PERIOD
PLANNED USES OF FUNDS BY TYPE OF LOCAL GOVERNMENT
(in millions of dollars)

Expenditure Categories	*Counties*		*Cities*		*Townships*		*Indian & Alaskan Natives*	
	O&M	*Capital*	*O&M*	*Capital*	*O&M*	*Capital*	*O&M*	*Capital*
Public Safety	$82.74	$89.52	$377.05	$86.71	$26.69	$12.30	$0.18	$0.04
Environmental Protection/Conserv.	17.53	32.00	76.66	71.94	6.90	5.79	0.11	0.08
Transportation	52.71	88.29	46.94	105.42	18.20	22.52	0.07	0.16
Health	35.40	42.59	20.22	25.46	3.40	2.36	0.09	0.03
Recreation/Culture	8.82	27.65	22.76	56.47	3.53	4.88	0.09	0.07
Libraries	10.95	—	8.58	—	1.94	—	0.02	—
Social Services/ Development	23.58	9.90	17.71	2.71	2.86	0.20	0.23	0.00
Financial Admin.	24.67	—	12.37	—	4.19	—	0.26	—
Multi-purpose/Gen'l Government	—	153.74	—	65.35	—	15.36	—	0.16
Education	—	19.45	—	6.83	—	2.11	—	0.01
Housing/Commun. Devel.	—	11.90	—	19.00	—	2.20	—	0.06
Economic Development	—	2.82	—	5.10	—	0.38	—	0.02
Totals	$256.40	$477.86	$582.29	$444.99	$67.71	$68.10	$1.05	$0.63

TABLE 6

NORTHEASTERN STATES *—Units of Local Government

	Total $	*O&M $*	*O&M % of Total*	*Cap. $*	*Cap. %*	*Highest Priority*
Connecticut	$24.78	$13.67	55	$11.03	45	O&M/Pub. Safety (23%)
Maine	11.57	5.35	46	6.05	52	O&M/Pub. Safety (16%)
						Cap./Transport (16%)
Massachusetts	59.03	48.31	82	10.90	18	O&M/Pub. Safety (51%)
New Hampshire	6.35	2.94	46	3.51	55	O&M/Pub. Safety (22%)
						Cap./Transport (21%)
New Jersey	61.09	39.92	65	21.47	35	O&M/Pub. Safety (35%)
New York	218.43	180.25	83	36.52	17	O&M/Pub. Safety (56%)
Pennsylvania	103.21	63.66	62	38.53	37	O&M/Pub. Safety (34%)
Rhode Island	8.17	5.71	70	2.76	34	O&M/Pub. Safety (48%)
Vermont	5.41	1.68	31	3.70	68	Cap./Transport (30%)
$ Totals	$498.04	$361.49		$134.47		

$—In Millions.
O&M—Operating & Maintenance Expenditure.
Cap—Capital Expenditure.
* Northeastern Region As Defined by U.S. Bureau of the Census.

TABLE 7

NORTH CENTRAL STATES *—Units of Local Government

	Total $	*O&M $*	*O&M % of Total*	*Cap $*	*Cap % of Total*	*Highest Priority*
Illinois	$98.50	$66.74	68	$31.45	32	O&M/Pub. Safety (52%)
Indiana	39.47	17.80	45	21.78	55	Cap./Transport (17%)
Iowa	27.83	8.53	31	19.01	68	Cap/Multi-purpose, general Government (18%)
Kansas	18.50	7.15	39	11.55	62	Cap./Transport (21%)
Michigan	81.57	46.21	57	33.96	42	O&M/Pub. Safety (34%)
Minnesota	38.35	12.88	34	25.01	65	Cap./Transport (21%)
Missouri	36.31	18.39	51	17.14	47	O&M/Pub. Safety (16%)
Nebraska	14.39	3.65	25	10.52	73	Cap./Transport (18%)
North Dakota	7.97	3.10	39	4.96	62	Cap./Transport (27%)
Ohio	78.00	42.07	54	35.64	46	O&M/Pub. Safety (25%)
South Dakota	9.00	3.29	37	5.64	63	Cap./Transport (24%)
Wisconsin	47.90	35.18	73	12.35	26	O&M/Pub. Safety (32%)
$ Totals	$497.79	$264.99		$210.01		

$—In Millions.
O&M—Operating & Maintenance Expenditure.
Cap—Capital Expenditure.
* North Central Region as Defined by U.S. Bureau of Census.

TABLE 8

SOUTHERN STATES *—Units of Local Government

	Total $	*O&M $*	*O&M % of Total*	*Cap $*	*Cap % of Total*	*Highest Priority*
Alabama	$32.45	$9.01	28	$22.95	71	Cap/Multi-purpose, general government (16%)
Arkansas	17.63	5.46	31	11.38	65	Cap./Transport (28%)
Delaware	5.16	3.74	73	1.83	36	O&M/Pub. Safety (22%)
Florida	55.70	11.95	21	42.67	77	Cap./Environ. Conserv. (17%)
Georgia	40.28	14.13	35	26.02	65	O&M/Pub. Safety (18%) Cap/Multi-purpose, general government (18%)
Kentucky	23.96	11.11	46	13.84	58	Cap./Pub. Safety (19%)
Louisiana	44.37	16.82	38	27.99	63	Cap/Multi-purpose, general government (19%)
Maryland	39.16	30.05	77	8.96	23	O&M/Pub. Safety (67%)
Mississippi	30.48	10.08	33	20.84	68	Cap./Transport (34%)
North Carolina	49.98	8.88	18	41.78	84	Cap/Multi-purpose, general government (20%)
Oklahoma	20.43	6.89	34	13.00	64	Cap/Multi-purpose, general government (18%)
South Carolina	25.94	6.11	24	19.13	74	Cap./Environ. Conserv. (16%)
Tennessee	35.79	8.98	25	25.74	72	Cap./Transport (24%)
Texas	92.71	21.45				
Virginia						

Texas	92.71	21.45	23	66.10	71	Cap./Transport (21%)
Virginia	38.13	8.34	22	29.54	77	Cap/Multi-purpose, general government (17%) Cap./Environ. Conserv. (17%)
West Virginia	14.57	4.03	28	10.68	73	Cap./Environ. Conserv. (20%)
$ Totals	$566.74	$177.03	—	$382.45		

$—In Millions.
O&M—Operating & Maintenance Expenditure.
Cap—Capital Expenditure.
* Southern Region As Defined by U.S. Bureau of the Census.

TABLE 9

WESTERN STATES *—Units of Local Government

	Total $	*O&M $*	*O&M % of Total*	*Cap. $*	*Cap. % of Total*	*Highest Priority*
Alaska	$ 1.68	$884.18	53	$800.51	48	O&M/Pub. Safety (14%)
Arizona	19.21	3.54	18	15.62	81	Cap./Transport (34%)
California	212.38	54.30	26	160.82	76	Cap./Pub. Safety (23%)
Colorado	20.41	4.48	22	11.23	55	Cap./Transport (21%)
Hawaii	8.81	5.00	57	3.81	43	O&M/Pub. Safety (57%)
Idaho	8.82	1.87	21	6.55	74	Cap./Multi-purpose, general government (31%)
Montana	7.45	1.38	19	5.51	74	Cap./Multi-purpose, general government (29%)
Nevada	4.31	0.81	19	3.27	76	Cap./Multi-purpose, general government (24%)
New Mexico	11.18	5.80	52	5.28	47	O&M/Pub. Safety (28%)
Oregon	18.85	7.35	39	11.48	61	Cap./Transport (16%)
Utah	8.59	2.98	35	5.51	64	O&M/Pub. Safety (29%)
Washington	28.03	14.37	51	13.47	48	O&M/Pub. Safety (29%)
Wyoming	3.63	1.20	33	2.26	62	Cap./Multi-purpose, general government (20%)
$ Totals	$353.35	$987.26		$1,045.32		

$—In Millions.
O&M—Operating & Maintenance Expenditure.
Cap—Capital Expenditure.
* Western Region As Defined by U.S. Bureau of the Census.

TABLE 10

NORTHEASTERN STATES *—State Governments

	Total $	*O&M $*	*O&M % of Total*	*Cap. $*	*Cap. % of Total*	*Highest Priority*
Connecticut	$ 12.44	$12.44	100	$0.00	0	O&M/Others (100%)
Maine	5.88	5.88	100	—	0	O&M/Education (100%)
Massachusetts	31.56	31.56	100	—	0	O&M/Education (90%)
New Hampshire	3.17	—	—	3.17	100	Cap./Others (100%)
New Jersey	31.11	—	—	31.11	100	Cap./Gen'l. Govt. (100%)
New York	100.65	100.65	100	—	0	O&M/Education (48%)
Pennsylvania	51.89	51.89	100	—	0	O&M/Education (53%)
Rhode Island	4.49	4.49	100	—	0	O&M/Education (62%)
Vermont	2.80	2.80	100	—	0	O&M/Others (100%)
$ Totals	$243.99	$209.71		$34.28		

$—In Millions.
O&M—Operating & Maintenance Expenditure.
Cap—Capital Expenditure.
* Northeastern Region As Defined by U.S. Bureau of the Census.

TABLE 11

NORTH CENTRAL STATES *—State Governments

	Total $	*O&M $*	*O&M % of Total*	*Cap. $*	*Cap. % of Total*	*Highest Priority*
Illinois	$ 50.76	$ 50.76	100	$0.00	0	O&M/Education (100%)
Indiana	21.21	21.21	100	—	0	O&M/Others (100%)
Iowa	14.10	—	—	14.10	100	Cap./Gen'l. Govt. (35%) Cap./Environ. Cons. (35%)
Kansas	9.63	9.63	100	—	0	O&M/Others (100%)
Michigan	42.24	42.24	100	—	0	O&M/Education (100%)
Minnesota	19.42	19.42	100	—	0	O&M/Soc. Serv. (28%) O&M/Others (28%)
Missouri	18.58	0.69	4	17.89	96	Cap./Education (54%)
Nebraska	7.30	7.30	100	—	0	O&M/Education (100%)
North Dakota	4.15	4.15	100	—	0	O&M/Education (100%)
Ohio	39.29	20.09	51	19.21	49	O&M/Education (36%)
South Dakota	4.50	3.95	88	0.55	12	O&M/Others (88%)
Wisconsin	24.95	24.95	100	—	0	O&M/Education (100%)
$ Totals	$256.13	$204.39		$51.75		

$—In Millions.
O&M—Operating & Maintenance Expenditure.
Cap—Capital Expenditure.
* North Central Region As Defined by U.S. Bureau of the Census.

Cap—Capital
* North Central Region As Defined by

TABLE 12

SOUTHERN STATES *—State Governments

	Total $	*O&M $*	*O&M % of Total*	*Cap. $*	*Cap. % of Total*	*Highest Priority*
Alabama	$16.91	$1.23	7	$15.68	93	Cap./Transport (30%)
Arkansas	11.59	—	—	11.59	100	Cap./Education (100%)
Delaware	3.66	3.66	100	—	0	O&M/Gen. Govt. (100%)
District of Columbia	13.47	13.47	100	—	0	O&M/Education (33%)
Florida	28.73	28.73	100	—	0	O&M/Education (100%)
Georgia	20.64	—	—	4.40	100	Cap./Education (28%)
Kentucky	20.16	20.16	100	—	0	O&M/Others (100%)
Louisiana	23.70	22.56	95	1.16	5	O&M/Education (43%)
Maryland	19.61	19.61	100	—	0	O&M/Others (100%)
Mississippi	17.11	0.09	1	17.03	99	Cap./Education (63%)
North Carolina	25.52	—	—	25.52	100	Cap./Education (34%)
Oklahoma	11.10	3.31	30	2.24	20	O&M/Education (30%)
South Carolina	35.00	6.61	19	28.39	81	Cap./Education (53%)
Tennessee	18.57	—	—	18.57	100	Cap./Transport (54%)
Texas	47.45	41.24	87	6.21	13	O&M/Education (58%)
Virginia	19.53	19.53	100	—	0	O&M/Education (100%)
West Virginia	13.62	—	—	13.62	100	Cap./Transport (41%)
$ Totals	$346.37	$180.20		$144.41		

$—In Millions.
O&M—Operating & Maintenance Expenditure.
Cap—Capital Expenditure.
* Southern Region As Defined by Bureau of the Census.

TABLE 13

WESTERN STATES *—State Governments

	Total $	*O&M $*	*O&M % of Total*	*Cap $*	*Cap. % of Total*	*Highest Priority*
Alaska	$ 1.29	$ 1.15	89	$0.15	12	O&M/Others (58%)
Arizona	10.08	10.08	100	—	0	O&M/Others (100%)
California	107.36	107.36	100	—	0	O&M/Education (100%)
Colorado	10.46	10.46	100	—	0	O&M/Education (100%)
Hawaii	4.40	—	—	4.40	100	Cap./Transport (36%)
Idaho	4.13	4.13	100	—	0	O&M/Education (100%)
Montana	3.88	3.88	100	—	0	O&M/Others (100%)
Nevada	2.20	1.10	50	1.10	50	O&M/Education (50%) Cap./Gen'l. Govt. (50%)
New Mexico	6.66	2.45	37	4.21	63	Cap./Gen'l. Govt. (56%)
Oregon	9.74	9.74	100	—	0	O&M/Education (100%)
Utah	5.96	—	—	5.96	100	Cap./Education (88%)
Washington	14.40	14.40	100	—	0	O&M/Education (100%)
Wyoming	1.89	1.15	61	0.75	39	Cap./Health (18%)
$ Totals	$182.45	$165.90		$16.57		

$—In Millions.
O&M—Operating & Maintenance Expenditure.
Cap—Capital Expenditure.
* Western Region As Defined by U.S. Bureau of the Census.

U.S. GOVERNMENT PRINTING OFFICE : 1973 O - 521-755

DECLARATION OF GATT MINISTERS
APPROVED IN TOKYO
SEPTEMBER 14, 1973

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The Ministers, having considered the report of the Preparatory Committee for the Trade Negotiations and having noted that a number of governments have decided to enter into comprehensive multilateral trade negotiations in the framework of GATT and that other governments have indicated their intention to make a decision as soon as possible, declare the negotiations officially open. Governments which have decided to negotiate have notified the Director-General of GATT to this effect, and the Ministers agree that it will be open to any other government, through a notification to the Director-General, to participate in the negotiations. The Ministers hope that the negotiations will involve the active participation of as many countries as possible. They expect the negotiations to be engaged effectively as rapidly as possible, and that, to that end, the governments concerned will have such authority as may be required.

The negotiations shall aim to:

-- Achieve the expansion and ever-greater liberalization of world trade and improvement in the standard of living and welfare of the people of the world, objectives which can be achieved, inter alia, through the progressive dismantling of obstacles to trade and the improvement of the international framework for the conduct of world trade.

-- Secure additional benefits for the international trade of developing countries so as to achieve a substantial increase in their foreign exchange earnings, the diversification of their exports, the acceleration of the rate of growth of their trade, taking into account their development needs, an improvement in the possibilities for these countries to participate in the expansion of world trade and a better balance as between developed and developing countries in the sharing of the advantages resulting from this expansion, through, in the largest possible measure, a substantial improvement in the conditions of access for the products of interest to the developing countries and, wherever appropriate, measures designed to attain stable, equitable and remunerative prices for primary products. To this end, coordinated efforts shall be made to solve in an equitable way the trade problems of all participating countries, taking into account the specific trade problems of the developing countries.

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To this end the negotiations should aim, inter alia, to:

(a) Conduct negotiations on tariffs by employment of appropriate formulae of as general application as possible;

(b) Reduce or eliminate non-tariff measures or, where this is not appropriate, to reduce or eliminate their trade restructing or distorting effects, and to bring such measures under more effective international discipline;

(c) Include an examination of the possibilities for the coordinated reduction or elimination of all barriers to trade in selected sectors as a complementary technique;

(d) Include an examination of the adequacy of the multilateral safeguard system, considering particularly the modalities of application of Article XIX, with a view to furthering trade liberalization and preserving its results;

(e) Include, as regards agriculture, an approach to negotiations which, while in line with the general objectives of the negotiations, should take account of the special characteristics and problems in this sector;

(f) Treat tropical products as a special and priority sector.

The negotiations shall cover tariffs, non-tariff barriers and other measures which impede or distort international trade in both industrial and agricultural products, including tropical products and raw materials, whether in primary form or at any stage of processing including in particular products of export interest to developing countries and measures affecting their exports.

The negotiations shall be conducted on the basis of the principles of mutual advantage, mutual commitment and overall reciprocity, while observing the most-favored-nation clause, and consistently with the provisions of the General Agreement relating to such negotiations. Participants shall jointly endeavor in the negotiations to achieve, by appropriate methods, an overall balance of advantage at the highest possible level. The developed countries do not expect

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reciprocity for commitments made by them in the negotiations to reduce or remove tariff and other barriers to the trade of developing countries, i.e., the developed countries do not expect the developing countries, in the course of the trade negotiations, to make contributions which are inconsistent with their individual development, financial and trade needs. The Ministers recognize the need for special measures to be taken in the negotiations to assist the developing countries in their efforts to increase their export earnings and promote their economic development and, where appropriate, for priority attention to be given to products or areas of interest to developing countries. They also recognize the importance of maintaining and improving the generalized system of preferences. They further recognize the importance of the application of differential measures to developing countries in ways which will provide special and more favorable treatment for them in areas of the negotiations where this is feasible and appropriate.

The Ministers recognize that the particular situation and problems of the least developed among the developing countries shall be given special attention, and stress the need to ensure that these countries receive special treatment in the context of any general or specific measures taken in favor of the developing countries during the negotiations.

The policy of liberalizing world trade cannot be carried out successfully in the absence of parallel efforts to set up a monetary system which shields the world economy from the shocks and imbalances which have previously occurred. The Ministers will not lose sight of the fact that the efforts which are to be made in the trade field imply continuing efforts to maintain orderly conditions and to establish a durable and equitable monetary system. The Ministers recognize equally that the new phase in the liberalization of trade which it is their intention to undertake should facilitate the orderly functioning of the monetary system. The Ministers recognize that they should bear these considerations in mind both at the opening of and throughout the negotiations. Efforts in these two fields will thus be able to contribute effectively to an improvement of international economic relations, taking into account the special characteristics of the economies of the developing countries and their problems.

The negotiations shall be considered as one undertaking, the various elements of which shall move forward together.

Support is reaffirmed for the principles, rules and disciplines provided for under the General Agreement. Consideration shall be given to improvements in the international framework for the conduct of world trade which might be desirable in the light of progress in the negotiations and, in this endeavor, care shall be taken to ensure that any measures introduced as a result are consistent with the overall objectives and principles of the trade negotiations and particularly of trade liberalization.

A Trade Negotiations Committee is established, with authority taking into account the present declaration, inter alia:

(a) To elaborate and put into effect detailed trade negotiating plans and to establish appropriate negotiating procedures, including special procedures for the negotiations between developed and developing countries;

(b) To supervise the program of negotiations.

The Trade Negotiations Committee shall be open to participating governments. The Trade Negotiations Committee shall hold its opening meeting not later than November 1, 1973.

The Ministers intend that the trade negotiations be concluded in 1975.

This does not necessarily represent the views of representatives of countries not now parties to the General Agreement, including the European Communities.

oOo

UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH August 31, 1973

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

DESCRIPTION	AMOUNT ISSUED 1/	AMOUNT REDEEMED 1/	AMOUNT OUTSTANDING 2/	% OUTSTANDING OF AMOUNT ISSUED
MATURED				
Series A-1935 thru D-1941	5,003	4,999	4	.08
Series F and G-1941 thru 1952	29,521	29,500	21	.07
Series J and K-1952 thru 1957	3,754	3,747	7	.19
UNMATURED				
Series E 3/ :				
1941	1,925	1,740	185	9.61
1942	8,496	7,668	828	9.75
1943	13,654	12,349	1,305	9.56
1944	15,941	14,342	1,599	10.03
1945	12,551	11,152	1,399	11.15
1946	5,726	4,934	792	13.83
1947	5,459	4,574	885	16.21
1948	5,661	4,667	994	17.56
1949	5,619	4,555	1,064	18.94
1950	4,933	3,946	986	19.99
1951	4,266	3,413	853	20.00
1952	4,475	3,554	921	20.58
1953	5,126	3,994	1,132	22.08
1954	5,225	4,018	1,207	23.10
1955	5,446	4,150	1,296	23.80
1956	5,265	3,979	1,286	24.43
1957	4,966	3,708	1,259	25.35
1958	4,862	3,535	1,327	27.29
1959	4,563	3,282	1,281	28.07
1960	4,591	3,211	1,380	30.06
1961	4,683	3,156	1,527	32.61
1962	4,558	2,989	1,570	34.44
1963	5,125	3,164	1,961	38.26
1964	4,995	3,091	1,904	38.12
1965	4,889	2,990	1,900	38.86
1966	5,274	3,085	2,189	41.51
1967	5,191	3,028	2,164	41.69
1968	4,931	2,823	2,108	42.75
1969	4,640	2,554	2,086	44.96
1970	4,858	2,366	2,493	51.32
1971	5,592	2,286	3,306	59.12
1972	6,155	1,914	4,241	68.90
1973	3,318	449	2,869	86.47
Unclassified	359	519	-160	-
Total Series E	193,321	141,182	52,139	26.97
Series H (1952 thru May, 1959) 3/	5,485	3,994	1,491	27.18
H (June, 1959 thru 1972)	9,224	3,090	6,135	66.51
Total Series H	14,709	7,084	7,625	51.84
Total Series E and H	208,030	148,266	59,764	28.73
All Series – Total matured	38,278	38.245	33	.09
All Series – Total unmatured	208,030	148,266	59,764	28.73
All Series – Grand Total	246,308	186,511	59,797	24.28

1/ Includes accrued discount.
2/ Current redemption value.
3/ At option of owner bonds may be held and will earn interest for additional periods after original maturity dates.

Form PD 3812 (Rev. Jan. 1973) – Dept. of the Treasury – Bureau of the Public Debt

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Revised
September 24, 1973

Recommendations for Change in the U.S. Financial System

Department
of the Treasury

Washington, D.C.
20220

Revised
September 24, 1973

Recommendations for Change in the U.S. Financial System

Department of the Treasury

Washington, D.C.
20220

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OFFICE OF THE WHITE HOUSE PRESS SECRETARY

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.

Richard Nixon

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, savings and loan associations and mutual saving banks faced a severe profit squeeze which threatened to cut off funds for housing.

Attempts to alleviate the crisis by regulation, mainly imposing of ceilings on the amounts financial institutions could pay for funds, failed to keep funds flowing into the institutions at previous levels.

Interest ceilings hurt 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 disproportionately reduced 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 elimination of Regulation Q (which limits the amount of interest that can be paid on deposits) after $5\frac{1}{2}$ years; 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. Federal Reserve reserve requirements on "checking" accounts will apply only to members of the Federal Reserve and Federal Home Loan Bank systems. Housing finance will be strengthened by eliminating Federal Housing Administration and Veterans Administration interest ceilings and by a tax credit to all taxpayers investing in residential mortgages.

The dual banking system—State and Federal—will be preserved and strengthened. 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 banks: — state law governs location of branches.	national banks: state banks: — state law governs location of 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.	$5\frac{1}{2}$ 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 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 eliminated after 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

Elimination of preferential interest rate treatment for thrift institutions will require adjustments in the structure of their deposit liabilities and assets so they can compete with commercial banks and other seekers of the savings dollar. Also, the decreasing effectiveness of interest ceiling differentials and technological innovations that blur the traditional lines between savings accounts and demand deposits 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. The FDIC imposes a similar regulation on insured nonmember commercial banks. Federal law prohibits payment of interest directly or indirectly on demand deposits for all federally-insured banks.

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. Also, advances in computer technology 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. Whether universal reserve requirements are needed for the efficient conduct of monetary policy, or any other reason, is a question that is not addressed by the President's recommendations.

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.

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 fi-

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nancial 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. 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 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 total assets in certain qualifying assets and must so invest 82 percent of their assets—72 percent in the case of mutual savings banks—to receive the maximum tax benefits) 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 (taxpayers) 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 taxpayers. 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, has been passed by Congress. Under current authority the FDIC has promulgated 12 CFR 329 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 eliminate Regulation Q?

A. We want consumer/savers to have the full benefit of market interest rates 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.

Q. If Regulation Q and its companion regulations are removed, will all S&L's, MSB's and banks pay the same rate?

A. It is very likely that S&L's and MSB's will continue to pay slightly higher rates on savings deposits.

Historically, thrift institutions paid more for deposit funds than did commercial banks before deposit ceilings went into effect. It is expected that costs of operations, dictated in part by the types of services, will permit thrifts to maintain a rate differential over banks.

The amount of interest deposit institutions will in fact pay for funds will depend, as it always has, on local supply and demand conditions, costs of operations, and on the uses to which the institutions expect to put those funds.

Institutions will now be free to tailor-make savings deposit services in terms of minimum amounts, maturity, liquidity and the like. Each service can be expected to carry its own rate of return.

II

Expanded Deposit Liability Powers and Reserves

Q. What types of institutions will be permitted to expand their deposit service offerings?

A. The President's recommendations are intended to help commercial banks and thrift institutions expand their deposit service offerings to the consuming public.

Q. What are thrift institutions?

A. For the purpose of the President's recommendations the term "thrift institution" is used for taxable savings and loan associations (S&L's) and savings banks (or mutual savings banks-MSB's).

Q. Why are credit unions not included under the category of thrift institutions?

A. Credit unions, as distinct from S&L's and MSB's, are exempt from the payment of income taxes. Although it is not uncommon nor incorrect to hear credit unions referred to as thrift institutions, some distinction in terms was necessary to assist in discussions and this usage appeared to be the most practicable.

Within the context of the President's recommendations, it is important to maintain a distinction between taxable and tax-exempt institutions. Thus, the President has made a separate set of recommendations that apply only to credit unions.

Q. If commercial banks are given N.O.W. account powers, how will they differentiate between N.O.W. accounts and regular demand deposits?

A. The legal difference is that N.O.W. account drafts are not legally payable on demand. However, where they have been used by mutual savings banks, such drafts have always been honored on demand.

There are many ways banks might differentiate between N.O.W. accounts and demand deposits. First, of course, banks could pay interest on N.O.W. accounts. In addition, they could, among other things, set different minimum balance requirements for the two types of accounts, establish different ranges of service charges, and set a minimum limit on the amount of a N.O.W. draft.

Q. How do the Administration's recommendations relate to current movements toward electronic money?

A. Recommendations to expand the deposit service offerings of thrift institutions are in complete harmony with that movement. Moreover, they will mitigate against the development of potential antitrust problems in that area.

By having the ability to offer a full range of deposit services, thrift institutions will be in the best position to compete with banks in offering electronic money services. That competition should spur new technological developments in the field as well as keep the price of such services down.

Such competition will also reduce the potential for antitrust problems. Extension of electronic money services requires the use of a so-called automated clearing house (ACH). Attempts to limit access to an ACH to only banks, on the grounds they are the only ones offering third party accounts, has antitrust complications. The Justice Department, after an initial review, has decided that thrift institutions, even with limited deposit offerings, are probably entitled to access. Expansion of deposit service offerings by thrift institutions is not inconsistent with that initial finding.

Q. What are the major differences which now exist between deposit liability powers of commercial banks and thrift institutions?

A. With a few exceptions, only commercial banks may offer demand deposits. However, mutual savings banks in Massachusetts and New Hampshire offer NOW-accounts which are tantamount to interest-bearing checking accounts. Federally chartered S&L's may offer a full range of savings account services to all customers, as may state chartered thrift institutions in most cases. Insured commercial banks may not offer savings accounts to corporate customers, but they can provide time deposits to corporations and all other depositors.

Q. Why have differing deposit liability powers for commercial banks and S&L's been established in the past?

A. S&L's began as modest cooperatives designed to pool the savings of members, not as full-service financial institutions. Over the years, public policy has been aimed at channeling the funds of S&L's primarily into the market for residential mortgages. It has been argued that the predominance of long-term assets in S&L portfolios calls for keeping liabilities in longer maturity deposits.

Q. Why the recommendation that the difference in deposit liability powers between S&L's and commercial banks be eliminated?

A. It will be beneficial for consumers 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 it is hoped that 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 (lending) powers?

A. Certain modifications in asset powers are warranted in any case. However sound financial management requires the ability to invest in shorter term assets when shorter term liabilities are assumed. 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 the deposit reserve requirements of thrift institutions?

A. Not necessarily. If thrifts are members of the FHLB 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 FHLB system. Again, membership will be voluntary for state chartered institutions.

Q. Will there be any changes in the statutory ranges for reserves on time and savings deposits of thrift institutions and commercial banks?

A. Yes. The statutory limits on reserves requirements for time and savings accounts of Federal Reserve member banks will be altered. The current system of liquidity (reserve) requirements on time and savings deposits of thrifts, however, will not be changed.

Q. What are the current statutory limits on demand deposit reserve requirements for Federal Reserve member banks?

A. Currently, the FRB is empowered to set reserve requirements on demand deposits of members 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 demand deposit reserve requirements in effect today for member banks?

A. As of August 2, 1973 reserve requirements on demand deposits of member banks were

Net demand deposits ($ millions)	Reserve requirements (percent)
0–2	8
2–10	10½
10–100	12½
100–400	13½
Over 400	18

Q. What will the new statutory ranges of reserve requirements be?

A. 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. Are reserve requirements imposed on savings accounts of Federal Reserve member banks?

A. Under present law, 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. The requirement now in effect for member banks is 3 percent.

Q. Are there any reserve requirements on other time deposits of Federal Reserve member banks?

A. Yes. 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 increases after May 16, 1973, 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, however, to banks whose obligations of these types amount to less than $10 million. Some nonmember banks are complying voluntarily with the 8 percent marginal reserve requirement, at the Federal Reserve Board's request. The 8 percent marginal reserve requirement will be increased to 11 percent, effective Oct. 4, 1973. (Most states impose reserve requirements on time deposits of nonmember banks.)

Q. Are reserve requirements imposed on nonmember commercial banks?

A. Almost all states impose reserve requirements on state chartered nonmember banks. The requirements in effect as of March, 1973, are shown in the table below. It should be noted that for Federal Reserve member banks, only vault cash and collected balances at Federal Reserve Banks may be used to meet reserve requirements. In contrast, nonmember banks can generally count deposits held with "correspondent" commercial banks, which often include substantial amounts of uncollected funds as well as funds held as compensating balances for services rendered. (In a number of cases nonmember banks are permitted to use interest-bearing securities to fulfill part, or even all, of their reserve requirements.) The following table shows reserve requirements imposed by states on state chartered commercial banks as of 1973.

State Reserve Requirements for Commercial Banks In Effect March 20, 1973

	Reserve requirement shown as percentage		Unless otherwise indicated reserves must be held in vault cash, demand balances in banks (collected and uncollected)*
	Demand	Time	
Alabama	11	3	
Alaska	20	8	
Arizona	10	4	
Arkansas	Same as Federal Reserve	Same as Federal Reserve	
California	do	5	80 percent T in U.S. securities.
Colorado	15	15	100 percent in U.S. securities.
Connecticut	12 up to $5MM	0 Savings	
	12½ percent over $5MM	5 Other	16.7 percent in U.S. securities.
Delaware	8 up to $100MM	3	
	10 over $100MM		
Florida	20	20	100 percent in U.S. securities.
Georgia	15	5	100 percent T in U.S. or Georgia securities. 50 percent D in U.S. securities maturing within 1 year or CD's.

See footnotes at end of table.

	Reserve requirement shown as percentage: Demand	Reserve requirement shown as percentage: Time	Unless otherwise indicated reserves must be held in vault cash, demand balances in banks (collected and uncollected)*
Hawaii	12	5	
Idaho	15	15	33⅓ percent in U.S. securities.
Illinois	0	0	
Indiana	10	3	
Iowa [1]	7	3	
Kansas	12½ (20—deposits of other banks).	5	
Kentucky [2]	7	3	25 percent D, 100 percent T in U.S. or Kentucky securities or CD's.
Louisiana	20	0	
Maine	8 up to $10MM 12 over $10MM	3 Savings Other: 3 up to $5MM Other: 5 over $5MM	
Maryland	15	3	100 percent T in U.S. or Maryland securities.
Massachusetts [3]	15	0	80 percent in U.S. or Massachusetts securities.
Michigan	11	6	90 percent T in U.S. securities.
Minnesota	12	3	30 percent in U.S. securities maturing within 1 year.
Mississippi	Same as Federal Reserve	Same as Federal Reserve	30 percent in U.S. securities (½ of the 30 percent may be in CD's).
Missouri	Same as Federal Reserve	3	
Montana	8 up to $2MM 10 over $2MM	 3	
Nebraska [4]	15	5	50 percent in U.S. securities.
Nevada	Same as Federal Reserve	Same as Federal Reserve	
New Hampshire	12	5	40 percent in U.S. securities maturing within 2 years.
New Jersey	Same as Federal Reserve	Same as Federal Reserve	
New Mexico	12	4	50 percent in U.S. securities maturing within 100 days.
New York	1 percent less than Federal Reserve.	1 percent less than Federal Reserve.	
North Carolina	15	5	
North Dakota	8	2	
Ohio	7	3	60 percent T in U.S. securities.
Oklahoma [5]	Same as Federal Reserve	Same as Federal Reserve	
Oregon	12	4	60 percent T in U.S. securities maturing within 1 year.
Pennsylvania	12	3 up to $5MM 5 over $5MM.	50 percent in U.S., U.S. Agency or Pennsylvania securities.
Rhode Island	15	0	60 percent in U.S. securities maturing within 91 days.
South Carolina	7	3	
South Dakota	17½	17½	60 percent in U.S. securities.
Tennessee	10	3	
Texas	15	5	
Utah	Same as Federal Reserve	Same as Federal Reserve	

See footnotes at end of table.

	Reserve requirement shown as percentage		Unless otherwise indicated reserves must be held in vault cash, demand balances in banks (collected and uncollected)*
	Demand	Time	
Vermont	27	7	(⅓ of 60 percent in Vermont securities. 60 percent in U.S. securities maturing in 1 year.
Virginia	10	3	
Washington	Same as Federal Reserve	Same as Federal Reserve	
West Virginia	7	3	
Wisconsin [6]	12	12	33⅓ percent D and 58.3 percent T in U.S. securities maturing in 18 months.
Wyoming	20	10	50 percent in Treasury Bills.

*Figures below represent *percent of reserve requirement.* "D" indicates reserve requirement on demand deposits. "T" indicates reserve requirement on time deposits.

[1] 10 percent of demand deposits of banks located in Reserve city.
[2] 10 percent of demand in Reserve cities.
[3] In Boston: 20 percent of demand.
[4] In cities of 25,000 or more 30 percent demand.
[5] Except, 12 percent on demand over $10 million.
[6] 20 percent for commissioner approved "Reserve" banks.

Q. What proposals are being made for reserves on time and savings accounts in commercial banks?

A. For member banks, the statutory limits for reserve requirements on savings accounts will be set at 1 percent to 5 percent and the limits for time accounts at 1 percent to 10 percent. State law will continue to 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. However, the depositor may be required by the bank to give at least 30 days notice before withdrawal.

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, federal insurance is not the determining factor. Only institutions which are members of the FR or FHLB systems would be subject to those reserve requirements. The FRB will have authority to set, in consultation with the FHLBB, reserve requirements on transaction accounts of members of the FR and FHLB systems. The Federal Reserve will continue to set reserve requirements for time and savings deposits of member banks.

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 FHLB thrifts will offer transaction accounts.

Q. Why is it not proposed that state chartered banks be required to join the Federal Reserve System?

A. Membership in the Federal Reserve system is presently voluntary for state chartered banks. In most states nonmember banks are required to hold reserves roughly equivalent to those of FR member banks. However, unlike member banks, they are usually able to hold such reserves in either government obligations or deposits in other commercial banks. Using reserves for such purposes, as distinct from holding them in a noninterest bearing form at the Fed, results in additional deposit and asset expansion. Whether exemption of nonmember banks from the reserve requirements imposed by the Federal Reserve is desirable is a question not addressed by these recommendations.

There is, however, reason to be cautious about requiring Federal Reserve membership for all State chartered banks, even if nonmembers were to be made subject to reserve requirements set by the Federal Reserve. The reason is that with membership goes regulation by the Federal Reserve in areas other than reserve requirements. Mandatory membership might weaken the present dual system of bank regulation under which both the states and the federal government may charter and regulate banks. The dual system creates 53 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. What are some concrete examples of differences in state law that have encouraged innovation in the provision of financial services?

A. The Office of the Comptroller of the Currency and state banking departments in Ohio, Illinois and New York are in the forefront of utilizing electronic data processing equipment as a tool to provide more meaningful information to examiners carrying out periodic bank examinations. Use of those new tools will enable examiners to evaluate the quality of a bank's operations and how a particular bank compares with other banks of similar size in a state in various critical categories. Following the lead of the Comptroller, authorities in New York state and California are in the process of establishing overseas bases to more adequately supervise the foreign banking activities of domestic banks.

Differences in state laws have also permitted differences in deposit powers. In New Hampshire and Massachusetts mutual savings banks this year have been permitted under state law to offer N.O.W. accounts—negotiable orders of withdrawal—to their customers. Those privileges, while controversial, were facilitated by the dual structure of our banking system.

In Connecticut, during 1973, a law was passed permitting mutual savings banks and S&L's to offer personal non-interest-bearing checking accounts. Reserves on these accounts must equal both in percentage and form those required to be maintained for demand deposits by nonmember state banks.

In the area of mortgage lending, a number of state laws permit more responsiveness to local needs than if there were greater centralization of authority in such matters. For example, in Illinois, while state banks must operate in a safe and sound condition, there are no statistical statutory prohibitions as to the length of a real estate loan or the amount of the loan in relation to the value of the real estate in question. As a consequence, state banks in Illinois have been able to be highly responsive to the needs of localized conditions.

In the area of consumer protection, states are increasingly taking new steps to protect consumers in credit transactions. New York state, for example, has created a Consumer Protection Division, as part of its Banking Department. This newly-created Division is devoted exclusively to handling consumer problems in credit transactions. In Florida, the State Comptroller, who also supervises state chartered banks, has requested each bank, both state and national, to appoint an official to serve as a financial counselor to customers in their financial undertakings. That program reportedly has been very successful.

Q. Summing up, how will the recommendations affect the scope of reserve requirements imposed by Federal agencies?

A. National banks—no change.

State chartered Federal Reserve System member banks—same as national banks—no change.

State nonmember banks—no change.

Federal S&L's—must hold reserves against demand deposits and N.O.W. accounts, which they will be newly empowered to offer; no change on savings and time deposits.

State S&L's—if member of FHLB, same as Federal S&L's. If not FHLB member, no change; state banking authorities will set deposit powers and reserve requirements. It is hoped that each state which allows thrifts to offer demand and N.O.W. accounts will set reserve requirements for those accounts at the same level as for member S&L's.

Mutual savings banks—no change unless voluntarily join FHLB (same as above)

The new ranges within which the Fed may set the reserve requirements 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 is meant by allowing S&L's to make construction loans not tied to permanent financing?

A. S&L's will be given the ability to make interim construction loans on the same terms as offered by commercial banks. Although S&L's can currently make construction loans without taking the permanent financing on the property, these loans must be tied to a specific property with all of the incumbent complexities of closing a mortgage loan such as preparing legal instruments, recordings, and the like.

This recommendation would allow S&L's to make unsecured lines of credit available to builders for the purpose of constructing improvements on real property. This will simplify the entire construction lending operation and will put S&L's on an equal basis with commercial banks in this area of real estate lending. This type of loan is sometimes referred to as a "statement" loan since the loan is made on the basis of the construction firm's financial statement.

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. Greater availability of consumer loans will be a major result.

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.

Q. Why will federal chartering of savings banks be conducted by the Federal Home Loan

Bank Board and not the Comptroller of the Currency as suggested in the Hunt Report?

A. MSB's are, by their very nature, more akin to S&L's than commercial banks, and they are likely to remain that way even with expanded powers.

The FHLBB has a long and distinguished history in chartering, examining and supervising thrift institutions. It has developed considerable expertise and is thus the most appropriate of all the federal agencies regulating deposit institutions to charter MSB's.

Additionally, chartering by FHLBB will facilitate the MSB's utilization of the mortgage support programs of the FHLB system.

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 nonprofit 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.)

Q. Why are credit unions not being given asset and deposit powers equal to those being recommended for S&L's and MSB's?

A. At the moment there does not appear to be any significant demand on the part of credit unions for those expanded powers. Some large credit unions may wish to have them, but the great majority of credit unions have expressed no real desire for them.

That demonstrated reluctance for expansion may reflect three factors. First, credit unions do enjoy some flexibility in the extension of credit. For example, many utilize a "write yourself a loan" program akin in some respects to overdraft banking available to consumers at commercial banks.

Second, expanded powers would call for reexamination of the tax-exempt status.

Third, expanded deposit powers such as N.O.W. accounts and demand accounts would raise the delicate issue of reserve requirements including their amount and the appropriate government agency to administer them.

Q. There are currently two bills before Congress (H.R. 7 and H.R. 19) designed to expand the powers of credit unions. Is the intent of those bills consistent with the President's recommendations?

A. The bills were introduced by Congressman Wright Patman on January 3, 1973. Hearings were held on H.R. 7 the week of July 30, but hearings have yet to be held on H.R. 19.

The major thrust of those two bills would greatly expand the powers of credit unions. In general terms, H.R. 19 would eliminate current restrictions on loan maturities and empower credit unions to: (1) offer deposit services; (2) invest in conditional sales contracts of members; (3) invest in participation loans extended to credit union members by credit unions or others lending to credit unions; and (4) engage in cooperative marketing of group life and health insurance.

H.R. 7 would establish a National Credit Union Bank empowered to make secured and unsecured loans for liquidity purposes to member credit unions. The general thrust is similar to the President's recommendation for a Central Discount Fund.

The President's proposals are more modest in scope and are consistent with the concept of continuing tax exemption. In that connection, it is important to note that Congressman Heinz introduced on January 3, 1973 his Tax Policy Review Act of 1973 (H.R. 636), which would eliminate the tax exempt status of credit unions beginning in 1974.

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.

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 7¾ to 8½ 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 the same methods as commercial banks.

Q. How will thrift institutions be compensated for this 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.

Q. Would the proposed mortgage interest tax credit be available to all lenders?

A. Yes, to all taxpaying lenders. (Tax-exempt institutions would not be eligible.)

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 (72 percent in the case of mutual savings banks) 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. The total amount of the bad debt reserve cannot exceed 12 percent of deposits or six percent of 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 about 86 percent 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.

Q. If the credit is limited to residential mortgages, what loans would be excluded?

A. All mortgages secured by an interest in commercial, industrial, and farm 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.

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 are employed to compensate lenders when market rates of interest rise above usury ceilings. Many different techniques are available to pass these extra payments on to the lender. Whatever technique is

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*** 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.**

used, however, the cost is ultimately borne by the home buyer.

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.

Q. If mortgage rates rise in the future, will the cost of home ownership rise appreciably?

A. Mortgage interest rates have not been, nor are they expected to be, the major cause of the increase in the cost of home buying and ownership.

Mortgage payments are only one of the many costs of home ownership. Other costs include: home purchase price; property taxes; property insurance, maintenance and repair; and fuel and utilities.

Since 1964, the cost of each of those, except fuel and utilities, has risen more than mortgage interest rates.

The long-run outlook is for those costs, including fuel, to rise faster than mortgage interest rates. Thus, although mortgage costs *may* rise, it is likely that such an increase will be small compared to the possible rise in the other costs of home ownership. However, it it recognized that interest payments (which are tax deductible) are a significant portion of home building costs.

IX

COMPARISON WITH OTHER FINANCIAL REFORM PACKAGES

Q. Many attempts to restructure financial markets are spawned and carried out in a crisis atmosphere and are aimed at the problems of the moment. Is not this package just another example of the same old story?

A. It is almost a truism that weakness is only exposed during times of stress. Certainly, in that sense our recommendations, like substantive reforms of the past, are a response to the weaknesses exposed by crises of the past decade.

Unlike major reforms of this century, however, the current attempt does not follow a widespread financial panic or a depression. Such severe economic phenomena prompted the establishment of the Federal Reserve System in 1913, the Federal Deposit Insurance Corporation in 1933 and the Banking Act of 1935.

Reforms during the 1800's were prompted by strains in financial markets but not by financial panics or economic depressions. The disarray caused by the issuance of state bank notes prompted the establishment of the Second National Bank of the United States in 1816 and the Union's need for funds to finance the War Between the States prompted the formation of the National Banking System in 1863.

In summary, the Administration's proposals are the first attempts at widespread structural reform without the backdrop of severe financial crisis.

Q. How does the Administration's recommendations compare to those of the Hunt Commission?

A. In outline form we can say:

I. The guiding philosophy underlying both sets of recommendations was the same: let free-market competition prevail wherever possible. As a matter of scope, the Administration's recommendations are more modest than those of the Hunt Commission.

II. The Administration's recommendations treat only four issues not covered by the Hunt Commission's Recommendations. These are:

(1) N.O.W. accounts;

(2) extension of corporate savings accounts by national banks;

(3) expanded authority for FHLBB to define collateral acceptable for loans to S&L's, and

(4) voluntary membership in FHLB system with FSLIC insurance.

III. The Administration's recommendations do not address or indicate neutrality on 7 issues treated by the Hunt Commission. These are:

(1) branching of financial institutions;

(2) deposit insurance;

(3) regulation and supervision of financial institutions; including FR and FHLB membership, and uniform reserve requirements.

(4) operation of life insurance companies;

(5) operation of trust departments and pension funds;

(6) variable rate mortgages, and

(7) conversion of mutual S&L's to stock S&L's.

IV. Of the issues covered jointly, there are some instances of perfect or near perfect accord. Examples are:

(1) retaining the prohibition against the payment of interest on demand deposits;

(2) making federal charters available for stock S&L's and mutual savings banks;

(3) removing interest ceilings on FHA insured and VA guaranteed loans;

(4) establishing a Central Discount Fund for Credit Unions;

(5) establishing a uniform tax formula for major depository institutions; and

(6) expanding authority of FRB to discount commercial bank assets.

V. Of the remaining areas covered jointly, the most easily identified differences of degree include:

(1) removal of interest ceilings:

(a) Administration: 5½ yr. phase-out

(b) Hunt: 10 yr. phase-out.

(2) determining interest ceilings:

(a) Administration: FDIC, FHLBB, Fed and Treasury

(b) Hunt: Fed

(3) extension of checking account and credit card powers of federal thrift institutions:

(a) Administration: no limits

(b) Hunt: individuals and nonbusiness entities only

(4) the range of deposit reserves:

(a) Administration: demand—1%–22%; time—1%–10%; savings—1%–5%

(b) Hunt: demand—7%–22%; time—abolish; savings—abolish

(5) federal chartering authority for thrift institutions:

(a) Administration: FHLBB for both MSB's and S&L's

(b) Hunt: Comptroller of the Currency for MSB's, FHLBB for S&L's.

VI. There are numerous differences in detail with regard to expanded asset powers of banks and thrift institutions.

Q. Why do the Administration's recommendations not address the major proposals put forward by the National Commission on Consumer Finance?

A. Much has to be done to assure that our financial markets are fully sensitive to the needs of all borrowers and lenders. Such widespread reform requires the deliberations of many different Committees of the Congress. The most orderly way to proceed is, thus, to combine into the same package only those reforms that are highly interrelated.

The Administration's proposals to change the financial system and the recommendations of the National Commission on Consumer Finance address different issues, although they are both designed to aid the American consumer. The first set of proposals seeks to restructure the fundamental services financial institutions may offer the public. The second is designed primarily to strengthen consumer safeguards, and many of the individual recommendations must be implemented at the state level.

Given that basic difference, it was decided not to mix the separate proposals into a single package. The reform package for financial institutions will not impede thoughtful consideration by federal and state legislatures of the National Commission's recommendations.

X

UNIFORM RESERVES

Q. Do the President's recommendations call for uniform reserves on all third-party, checking and N.O.W. accounts?

A. The President's recommendations deal with matters of financial structure, financial services and competition. Another issue is the extent and form of reserve coverage needed for the efficient implementation of national monetary policy. This issue is complicated and is related to the appropriate jurisdictions of the various supervisory (state and federal) agencies. Those two issues are not addressed by the President's recommendations.

Q. Would uniform reserve requirements be harmful to the continuance of the dual banking system?

A. Not necessarily. Uniform reserve requirements are a separate issue not addressed by the President's recommendations.

The administration of bank regulation and supervision by 50 state authorities, separate from the control of the Federal regulatory authorities, has permitted differences in the treatment of such questions as capital adequacy, capital debentures, and the extension of ancillary services such as data processing, insurance coverage, messenger service and the like. Thus, some banks have had more freedom to experiment than others. And supervisors have learned from these experiments. In some cases the freedoms have been extended to those who had not previously enjoyed them.

XI

CONSUMER BENEFITS

Q. How will the small saver or borrower benefit directly from these changes that are being proposed?

A. The most direct benefit for the consumer/saver is that he will be able to receive a market rate of interest on his savings rather than the regulated rate now in effect. Today, the savings rate is 5 or $5\frac{1}{4}$ percent for the regular passbook account, while Treasury bills are yielding over $8\frac{1}{2}$ percent. Also, a higher rate of interest gives more incentive for the consumer to save his money, and it is important to encourage thrift in our economy.

Other benefits for the consumer will be greater banking convenience and availability of credit because more institutions will be able to provide full service banking. And these changes should ensure a greater availability of mortgage credit during periods of rising interest rates.

Q. How will these proposals result in greater convenience for the consumer and a better availability of credit?

A. If all deposit institutions can offer more complete banking services there will be an increase in the number of competing institutions offering these services. If a borrower wants an installment loan he will no longer be restricted to applying to a commercial bank or finance company, but will also be able to seek it at a local savings and loan association. It will create greater competition for commercial banks and give them the desire or the need to provide more consumer services.

Q. Why will these proposals help ensure a steady supply of mortgage credit to the homebuyer?

A. Thrift institutions, which have specialized in mortgage lending, will be free to pay sufficient interest on deposits to attract new savings even during periods of rapidly rising interest rates. This means that they will have new funds available for making mortgage loans. In addition, the proposed tax credit will be an incentive for commercial banks to increase the proportion of their assets used for making mortgage loans, making more funds available and increasing the number of institutions interested in mortgage lending.

FINANCIAL REFORM AND HOUSING: A SUMMARY STATEMENT

The interagency Task Force (chaired by CEA, with representatives of the White House, OMB, Treasury and HUD) has given considerable attention to the potential effects of the proposed changes in financial structure on housing. We have concluded that the overall impact of the *nontax* recommendations taken together is not likely to be adverse. This means that the mortgage tax credit can be set to offset subsidies lost when existing tax advantages are altered.

There are two distinct central issues here, first the effect of the recommendations on the supply of mortgage credit and second the effect of changes in mortgage credit on housing. The second link is by no means as certain as frequent observations on housing imply. "Mortgage money" is widely used to finance many things other than new homes. The largest such item is perhaps existing homes, but college expenses, vacations, business expansion and furniture and furnishings, to name only a few, are often financed through the mortgage instrument. Mortgage credit can be used for any purpose the borrower chooses. In addition, even if a mortgage is used to purchase a new home, much more than a buyer's mortgage is required to finance the creation and purchase of housing. A partial list of types of financing used in the production of housing includes: accumulated savings of homeowners, equity for developing and building housing, equity investments in apartment houses, short-term construction financing for developers and builders, long-term mortgage funds for homeowners, long-term funds for investors for multi-family units, and short-term loans for consumers and investors for rehabilitation of housing. In addition to aiding the provision of long-term mortgages, the recommendations will improve *every single other link* above.

Observers who fear substantial harmful effects on housing of a move away from enforced specialization of financial institutions point to the observed tendency for mortgage flows and housing to move together in the short run to support their case that this specialization gives housing credit resources it would not otherwise receive. We are of the view that this pattern held because mortgage credit flows and the rate of housing construction were simultaneously influenced by outside variables. Two effects produce this result. 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 have not been able to increase their interest rates on deposits by as much as open market rates rise. When the latter fall, funds shift back to these institutions. This approach places little emphasis on the structure of financial institutions as a determinent of long-run mortgage flows, housing production and mortgage interest rates.

Credit flows to ultimate users via a number of routes, and a dollar flows where it can earn the best return, given risk, term to maturity, tax status, etc. An S&L, for instance, must be able to compete with other investment opportunities if it is to attract and hold the savings of consumers. And since others invest in mortgages as well, if S&L's bid the mortgage rate too low in relation to other rates this action would be offset by these other lenders who would leave the market. While in the short run (up to a year) government purchases of mortgages can probably have a positive impact on mortgage markets, beyond that the effects are likely to be dissipated as other lenders switch to more profitable markets. This conclusion is supported by the best available empirical work in the U.S. and by the fact that a number of European countries have experienced the same behavior of mortgage flows, housing production and interest rates despite a wide variety of institutional structures by which housing is financed.

One of the most important benefits of the recommended changes is the stabilization and smoothing of the flow of funds into mortgage markets from thrift institutions over the credit cycle. In the short run, disruptions in the thrift industry have in the past resulted in severe gyrations in the funds available to housing. It would be hard to imagine how this industry could be made any less able to attract funds during periods of restrictive credit market conditions, and indeed the recommendations will improve this ability markedly. Short-run disruptions of mortgage flows will be reduced by two 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. As our larger study makes clear, the host of restrictions on asset and liability powers of thrift institutions has left them virtually helpless during periods of severe credit restraint and threatens to make them even worse off in the future. It is not simply a matter of the legal ceilings on interest rates paid: without powers to diversify, thrifts would not have the earnings to pay these rates even if permitted. By increasing their non-mortgage portfolio when mortgage rates are low relative to other investments, these institutions will also be able to liquidate these holdings to supply mortgage funds when mortgage funds become tight.

Since the demand for housing is higher interest-responsive, those changes will not completely eliminate fluctuations in mortgages and housing. Nor should they. They will, however, insure that the structure of the financial system does not by itself artifically worsen this variation.

The longer-term implications for the mortgage market of the recommendations are more difficult to evaluate, but we believe that the overall effect will be favorable. As mentioned above, one cannot, for any but the short-run considerations, posit anything like a direct link between mortgage market effects and the housing market. Nevertheless, of the recommended changes which could affect the mortgage market, for only one of them, relaxed restrictions on investment powers, could the effects possibly be detrimental. Even here, however, there are important qualifications. By investing some of their funds in nonmortgage assets, savings institutions will be able to earn a higher rate of return and will thus be able to offer high deposit rates. Savings flows into these institutions will rise and funds available for all their lending, including housing, will rise. Savings flows will also increase due to the increased convenience to the public as thrifts make a full range of different loans, offering the important one-stop convenience that has previously been denied them.

The other relevant recommended changes will, on the other hand, aid and support the mortgage market in the long run. By permitting thrifts to offer a broader range of financial services, their long-run market position will be strengthened by the convenience offered to customers and the earnings from these activities. By allowing thrifts to diversify the range of liabilities they hold, they will be able to attract more funds to lend in all their activities. When a specific type of deposit suffers in the market, housing will not automatically suffer, for thrifts can aggressively compete for other types of funds. The mortgage interest tax credit will be a direct benefit for the mortgage market. The tax subsidy going to thrifts will not change, but a wide range of other lenders will receive a new tax incentive to hold mortgages. This will directly increase overall market interest in mortgages. Finally, the President recommended the relaxation of state usury laws and other restrictions on mortgage lending. Most of these are not matters of Federal jurisdiction, but as states and institutions follow these recommendations the mortgage market will be further aided.

EFFECTS ON MORTGAGE MARKETS AND HOUSING

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.

Mortgage Credit and Housing

Important to the issue concerning the effects of the President's 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.

(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

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*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.

—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. A popular view, 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 President'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 market 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 has been a popular one, it is the third which follows most naturally from received economic theory. According to this analysis, 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 analysis places little stress on the *structure* of financial institutions as a determinant of long-run mortgage flows, housing production and mortgage interest rates.

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.

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

*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.

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.

Although 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. Thus, the evidence shows 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. We agree that credit rationing may occur in the very short run, but are 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 President'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.

Effects on Mortgage Flows Over the Credit Cycle

It is hard to imagine how any recommendations could increase the cyclical variability of housing compared with recent years. Rather, these 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:

1. The absence of a secondary market in mortgages means that the institutions are not 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 imply 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 to the same extent. 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. We are not fully convinced that variable rate mortgages will be as beneficial as their proponents assert, but we see 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. Additionally, by increasing their non-mortgage portfolio when mortgage rates are low relative to other investments, financial institutions will be able to liquidate these holdings to supply mortgage funds when the mortgage market becomes tight.

Effects on long-run mortgage flows

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 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. They would 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.

The President recommended moving to a uniform tax structure for all depository financial institutions by basing the bad debt reserve on actual default experience. This is currently the direction in which commercial bank taxation is moving. Any possible decline in mortgage flows from financial institutions will be offset by implementing the mortgage tax credit, which will subsidize mortgage flows.

Conclusions

The question here is how all these effects add up. The answer to this question comes partly from judgment, but there is empirical evidence which contributes 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 Hunt Commission's recommendations during the 1960s. These tests are relevant here because some of the President's recommendations were also proposed by the Hunt Commission. 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."

AN INFORMAL GLOSSARY FOR THE LAY READER*

ASSET POWERS—These are the powers financial intermediaries have for making loans and investments. There are limitations placed on the asset powers of all intermediaries but they vary by type of institution and by the agencies supervising them.

CENTRAL DISCOUNT FUND—A proposed lending facility which would provide funds to meet temporary liquidity needs of its members. Membership would be available to all Federally insured credit unions and the Fund would be managed by the National Credit Union Administration.

COMMUNITY REHABILITATION LOANS—Loans that are directed to providing housing and employment opportunities for low and moderate income persons.

CREDIT UNION—A cooperative nonprofit organization of individuals with a common bond of occupation, association or residence. Its purpose is to promote thrift among its members and to provide them with a source of credit at reasonable rates.

DEMAND DEPOSITS—Demand deposits, unlike savings and time deposits, are payable at any time upon the depositor's order. Most typically a demand deposit is a checking account.

DISINTERMEDIATION—This is a process that occurs when maximum interest rates on deposits are below market interest rates. Funds that otherwise would remain as deposits, or would be deposited with intermediaries, are withdrawn or withheld because of the availability of higher yielding direct investments, resulting in disintermediation.

DUAL BANKING SYSTEM—The existence of both Federal and State laws and agencies for chartering and supervising financial institutions. Such a system now exists for commercial banks, mutual savings and loan associations, and credit unions. However, under the present law, there is no provision for Federal chartering of stock savings and loan associations or mutual savings banks.

FHA & VA INTEREST CEILINGS—The Secretary of Housing and Urban Development and the Administrator of Veterans Affairs are empowered to set a maximum rate of interest which may be charged on FHA-insured or VA-guaranteed loans respectively.

FINANCIAL INTERMEDIARY—A financial intermediary is a deposit institution such as a bank, savings and loan association, savings bank, or credit union. Their function is to accept deposits from individuals, corporations or organizations and to make loans with those funds or otherwise to invest them. The earnings from these loans are passed on as interest payments to the depositors and profits or reserve additions to the intermediary.

HUNT COMMISSION—The formal title is The President's Commission on Financial Structure and Regulation, which was chaired by Reed O. Hunt, hence the more manageable title. That Commission's report was delivered in December 1971 and served as a basic study for developing these recommendations.

MUTUAL SAVINGS BANKS—Mutual savings banks may be chartered in 18 states and Puerto Rico: Federal charters are not available to mutual savings banks under the present law. Mutual savings banks have more liberal loan and investment powers than savings and loan associations and in six states may accept demand deposits; however, most of their assets are held in real estate loans.

MUTUAL THRIFT INSTITUTIONS—These are mutual savings banks and mutual savings and loan associations.

N.O.W. ACCOUNTS—Saving accounts from which the account holder may withdraw his funds

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*This glossary is designed merely to aid newsmen and lay readers and should not in any sense be regarded as a compilation of legal definitions.

through a negotiable order of withdrawal are typically called a N.O.W. account. Since the withdrawal order is negotiable, it can be used much like a check to transfer funds to a third party. These accounts are offered by mutual savings banks in Massachusetts and New Hampshire. The saving banks legally may require that depositors give advance notice of withdrawals from a N.O.W. account.

POINTS—Points are a method of increasing the effective rate of interest on a mortgage loan when contract rates are held below current market rates by State usury limits or administrative ceilings on FHA-VA backed loans. A point is one percent of the total value of a mortgage loan.

QUALIFYING REAL PROPERTY LOANS—These are loans for which a thrift institution is entitled to a special bad debt reserve deduction. They 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.

REGULATION Q—Administrative ceilings set by the Federal Reserve Board which limit the amount of interest that member banks can pay on time and savings deposits are promulgated as Regulation Q. Similarly the FDIC establishes maximum rates that may be paid by nonmember insured commercial banks (12 CFR 329) and the FHLBB establishes maximum rates that may be paid by its members (12 CFR 526).

RESERVE REQUIREMENTS—The Federal Reserve Board sets for member banks percentage requirements for demand deposits, savings deposits and time deposits which must be held in vault cash or noninterest bearing deposits at the Federal Reserve. The Federal Reserve Board sets the reserve requirements for each class of deposits within statutory ranges set by Congress. In most states nonmember banks are required to hold reserves; however, they are usually able to hold them in either government obligations or deposits in other commercial banks.

SAVINGS ACCOUNTS—Savings deposits are deposits not required by contract to be left on deposit for any specified period of time. Normally funds in savings accounts may be withdrawn at any time; however, the depositor *may* be required to give at least 30 days notice before withdrawal.

SPECIAL RESERVE PROVISIONS—All deposit institutions deduct from gross income an expense item called "additions to reserves for bad debts." However, thrift institutions may use a special method of calculating that expense item if they hold 60 percent or more of their assets in qualifying real property loans. Under this special provision, they may deduct up to 49 percent of their taxable income. In order to obtain the maximum deduction, they must hold 82 percent of their assets in qualifying real property loans. With regard to non-qualifying loans, bad debt reserve reductions are made under the same provisions applicable to commercial banks.

STOCK SAVINGS AND LOAN ASSOCIATIONS—Most savings and loan associations are based on a mutual form of organization where ownership is shared by the depositors. However, 21 states charter stock savings and loan associations where ownership is held by the stockholders, just as in any profit-making corporation. There is no provision currently for federal chartering of stock thrift institutions.

THIRD-PARTY PAYMENT SERVICES—Any mechanism whereby a deposit institution transfers a depositor's funds to a third party upon the negotiable or non-negotiable order of the depositor may be called a third-party payment service. Checking accounts are the most common type of third-party payment services.

THRIFT INSTITUTIONS—For the purpose of the President's recommendations the phrase "thrift institutions" is reserved for savings and loan associations (S & L's) and mutual savings banks (MSB's).

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FOR IMMEIDATE RELEASE September 24, 1973

ANTIDUMPING INVESTIGATION INITIATED ON NON-POWERED HAND TOOLS FROM JAPAN

Assistant Secretary of the Treasury Edward L. Morgan announced today the initiation of an antidumping investigation on imports of non-powered hand tools from Japan. For the purpose of this investigation, the term "non-powered hand tools" means wrenches, pliers, chisels, punches, screwdrivers, hammers, metal-cutting snips and shears, wheel and gear pullers, valve tools, and body and fender tools.

Notice of this action will be published in the Federal Register of September 25, 1973.

Mr. Morgan's announcement followed a summary investigation conducted by the U.S. Customs Service after receipt of a complaint alleging that dumping was occurring in the United States. The information received tends to indicate that the prices of the merchandise sold for exportation to the United States are less than the home market prices.

During the year beginning June 1, 1972, imports of these non-powered hand tools from Japan were valued at approximately $35 million.

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

FOR IMMEDIATE RELEASE September 24, 1973

EMERGENCY LOAN GUARANTEE BOARD
DELIVERS ANNUAL REPORT TO CONGRESS

There is a high probability that the Government will not be called upon to make payment on the outstanding guaranteed bank loans to Lockheed Aircraft Corporation, but if it should, its position is adequately protected by the pool of collateral established under the 1971 Emergency Loan Guarantee Agreement.

This and other information is contained in the Emergency Loan Guarantee Board's Second Annual Report to Congress, delivered today in accordance with the requirements of the Emergency Loan Guarantee Act.

The Report, which represents the Board's operations from August 1, 1972 to July 31, 1973, discusses the Guarantee legislation and the Board's organization and functions. As noted in the First Annual Report the Board in 1971 approved a commitment to guarantee bank loans totaling \$250 million to Lockheed Aircraft Corporation. As of July 31, 1973, Lockheed, the only borrower under the Act, had drawn down \$150 million in loans under Government guarantee.

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The Board received over $3 million in fees for these guarantee commitments during its second year of operations bringing total fees received since inception of the program to about $5.5 million.

In addition, Part I discusses Board actions taken during the period with focus on expanded monitoring activities of Lockheed's operations to assure satisfactory administration of the 1971 Credit Agreement. Additionally, material Board consents and approved changes to the 1971 Credit Agreement are described.

Part II of the Report reviews Lockheed's operations with emphasis on the L-1011 TriStar program. The difficulties which Lockheed experienced during 1972 and early 1973 with delays in scheduled deliveries and higher than expected costs in the program are also discussed. Certain of the problems Lockheed encountered were not abnormal to the introduction of a new aircraft while others stemmed from an eight month cessation of production caused by the 1971 Rolls-Royce receivership. The Report notes that by July 1973 many of the production problems had been resolved and L-1011 deliveries were on schedule.

Since the first Annual Report, substantial new orders have improved Lockheed's marketing outlook for the TriStar. Cumulatively, 199 L-1011's had been ordered at June 30, 1973 (122 firm, 35 of which were delivered,

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and 77 options) as compared with 152 ordered at July 31, 1972 (104 firm, 7 of which were delivered and 48 options). Lockheed also added two major new customers, All Nippon Airways and British European Airways.

During the period Lockheed continued to review variations of the basic L-1011, the most prominent of which is a longer range version, to meet future aircraft requirements of its current and potential commercial customers. A decision to go forward with a new version would require Board approval; and, as yet, Lockheed has not submitted a formal proposal to the Board. While Lockheed has announced it has entered into an agreement in principal with Summa Corporation for financing of the development of an extended range L-1011 TriStar, a final decision by the Board would be reached only after receipt and evaluation of complete information as to the financing, production and marketability of such an aircraft.

In addition, Part II discloses Lockheed's financial condition in detail. The Board notes that the Company's overall operations remained profitable, with inventories substantially financed by government guaranteed bank loans. During 1972, losses on the L-1011 program amounted to $80.5 million including an extraordinary loss of $25 million in, "Delayed Disruption Cost," stemming from the eight month cessation of L-1011 production. However, non-L-1011 programs did better than expected producing operating profits of approximately $30 million more than projected for a total of $155.7 million. An increase in inventories, the result of L-1011 work-in-process, was noted as was a slight decrease in the value of all other material assets.

At year end 1972, Lockheed was in compliance with required covenants of the Credit Agreement relating to working capital, total liabilities and net worth. In particular, working capital increased to $226 million from $177 million at year end 1971 exceeding the minimum specified by $96 million.

For the first half of 1973 Lockheed reported a net profit of $7.9 million on sales of $1.3 billion. The Report states that the Company predicts cash expenditures will exceed cash receipts in 1973 while a positive cash flow and the beginning of substantial pay downs on the guaranteed loans will occur in 1974. These projections may be affected by the lower than anticipated passenger mile traffic experienced by the airlines in the first half of 1973.

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SECOND ANNUAL REPORT

EMERGENCY LOAN GUARANTEE BOARD

July 31, 1973

Second Annual Report

of the

EMERGENCY LOAN GUARANTEE BOARD

c/o Department of the Treasury
15th and Pennsylvania Avenue, N.W.
Washington, D.C. 20220

TO THE CONGRESS OF THE UNITED STATES

Covering the Period August 1, 1972, Through July 31, 1973

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LETTER OF TRANSMITTAL

EMERGENCY LOAN GUARANTEE BOARD
Washington, D.C., September 24, 1973

THE PRESIDENT OF THE SENATE
THE SPEAKER OF THE HOUSE OF REPRESENTATIVES

Sirs:

Pursuant to the provisions of Section 12 of Public Law 92–70, submitted herewith is the Second Annual Report of the Emergency Loan Guarantee Board, covering the period August 1, 1972 through July 31, 1973.

Respectfully,

GEORGE P. SHULTZ
Chairman

EMERGENCY LOAN GUARANTEE BOARD
BOARD MEMBERS AND STAFF

August 10, 1973

BOARD MEMBERS

GEORGE P. SHULTZ, *Chairman*
Secretary of the Treasury

ARTHUR F. BURNS
Chairman of the Board of Governors of the Federal Reserve System

RAY GARRETT, JR.
Chairman of the Securities and Exchange Commission

STAFF

EDWARD C. SCHMULTS, *Executive Director and General Counsel*
General Counsel of the Department of the Treasury

ALAN N. VINICK, *Secretary*
Financial Advisor to the General Counsel of the Department of the Treasury

WM. HOWARD BEASLEY, III, *Financial Analyst*
Special Assistant to the Deputy Secretary of the Treasury

DEWITT W. HAZELTON, *Captain, U.S.N. (Ret.), Technical Analyst to the Emergency Loan Guarantee Board*

FOREWORD

The Second Annual Report to Congress of the Emergency Loan Guarantee Board constitutes a full report of the Board's activities from August 1, 1972 through July 31, 1973, in accordance with the statutory requirements of the Emergency Loan Guarantee Act. This Report also encompasses a full description of the progress of Lockheed Aircraft Corporation, the only borrower under this Government guarantee commitment, with emphasis on the L–1011 TriStar program.

Reference is made to the First Annual Report of the Emergency Loan Guarantee Board, which is available through the U.S. Government Printing Office, Washington, D.C., Stock Number 4800–00197, for a full discussion of the background of the Emergency Loan Guarantee Act, the organization and functions of the Board, the Board's findings with respect to Lockheed Aircraft Corporation, the resultant 1971 Credit Agreement, and the Board's activities through July 31, 1972.

Reference is also made to the Reports to the Congress by the Comptroller General of the United States, dated December 6, 1972, and August 13, 1973, both with Reference Number B–169300, for additional information relating to his continuing independent assessment of the emergency loan guarantee program as required by the Emergency Loan Guarantee Act. Copies can be obtained through the U.S. General Accounting Office, Washington, D.C. 20548.

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Introduction
and
Emergency Loan Guarantee Board Operations

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Guarantee Legislation

The Emergency Loan Guarantee Act (the "Act"), Public Law 92-70, signed by the President on August 9, 1971, created the Emergency Loan Guarantee Board (the "Board"), which was given the final statutory responsibility for determining a company's eligibility for a loan guarantee. (*See Appendix A for text of Act.*) Private lenders would thus be guaranteed against loss of principal or interest on loans meeting the requirements of the Act. The Board also was made responsible for administering the provisions of the Act and given authority to establish the terms and conditions of the loan guarantee. On September 9, 1971 the Board found that Lockheed Aircraft Corporation ("Lockheed") met the requirements of the Act and approved a Government guarantee to twenty-four banks (*see list in Appendix B*) which may lend to Lockheed up to $250 million, the maximum amount of guarantee provided for under the Act.

Organization and Function of the Board

The members of the Board are the Secretary of the Treasury, the Chairman of the Board of Governors of the Federal Reserve System, and the Chairman of the Securities and Exchange Commission.[1]

While no new Government agency was created, a small staff was drawn from the Department of the Treasury to assist in the administration of the day to day operations of the Board. This staff is composed of an Executive Director and General Counsel, a Financial Analyst and a full-time Secretary. In April 1973 a Technical Analyst was employed by the Board to advise on the technical aspects surrounding Lockheed's various production programs. In addition, the Board utilizes personnel from the Board of Governors of the Federal Reserve System, and the Securities and Exchange Commission when needed.

The Federal Reserve Bank of New York, as fiscal agent of the

[1] William J. Casey, Chairman of the SEC, served on the Board through February 1, 1973. He was succeeded by G. Bradford Cook for the period from March 3, 1973 through May 16, 1973. Mr. Cook was succeeded by Ray Garrett, Jr., on August 6, 1973.

Board, receives payments in connection with guarantees under the Act, reviews the financial information submitted by Lockheed, prepares credit analyses and special reports requested by the Board and assists in the monitoring of Lockheed's activities.

1971 Agreement

The Government loan guarantee is an integral part of Lockheed's borrowing arrangements as set forth in three basic agreements, each of which incorporates the others by reference, and which together constitute a single agreement (referred to as the "1971 Agreement").[2] A Credit Agreement between Lockheed and its twenty-four lending banks provides for the extension of credit in an amount of up to $650 million to Lockheed, of which $400 million represents refinancing of a loan previously extended by the same banks. The remaining $250 million is available to Lockheed under the terms of the Government's Guarantee Agreement. Lockheed's three major airline customers agreed to make an additional $100 million in prepayments above those already scheduled toward the purchases of L–1011 aircraft. The underlying $400 million bank loans must be outstanding before any guaranteed loans are extended, and the guaranteed portion is the first to be repaid. A Security and Pledge Agreement between Lockheed and its banks provides for the creation of a single pool of collateral consisting of certain assets of Lockheed which are being held as security for the $650 million credit. This collateral would be used first for the repayment of the Government guaranteed portion of the loans and then for the repayment of any of the underlying $400 million bank loans.

Guaranteed Borrowings of Lockheed Aircraft Corporation

Since June 14, 1972, Lockheed has renewed three maturing guaranteed loans totaling $100 million and has taken down two additional guaranteed loans aggregating $50 million, bringing total outstanding guaranteed borrowings as of the date of this report to

[2] Copies of the 1971 Agreement are available through the Public Reference Section of the Securities and Exchange Commission, 500 North Capitol Street, N.W., Washington, D.C. 20549.

$150 million. The loan takedowns and applicable financial charges are shown in Table 1.[3]

The interest rate and guarantee fee paid by Lockheed on guaranteed borrowings is determined on the principle: (1) that the banks should receive a rate of interest appropriate for a risk-free (Government) guaranteed loan adjusted for "illiquidity" and "additional servicing costs;" (2) the total financing charge to Lockheed should be a rate which is appropriate for a loan of comparable risk and maturity; and, furthermore, (3) the total charge should not be such as to allow Lockheed to acquire Government guaranteed funds at a lower cost than other companies in similar circumstances can acquire non-guaranteed funds.

The interest is thus calculated on the basis of the average yield on outstanding nine-month Treasury Bills to which is added a 1/4 percent illiquidity premium[4] plus a 1/8 percent allowance for the servicing cost of a guaranteed loan. The guarantee fee is determined by the Board and added to the interest rate so that Lockheed's total financing charge is appropriate for loan agreements of comparable risk and maturity if supplied by the normal capital markets. Lockheed is also required to pay a 1/2 percent per annum commitment fee to the banks on the unused amount of the loan. The banks must, in turn, pay to the Board 50 percent of each commitment fee payment.

Emergency Loan Guarantee Fund

The Emergency Loan Guarantee Fund (the "Fund") was established on August 12, 1971, on the general account of the Treasury. The Fund is credited with fees prescribed by the Board in connection with each borrowing guaranteed under the Act. Funds not anticipated to be utilized by the Board for current operations have been invested in United States Government Treasury Bills.

During its second year of operations, the Board earned fees of $3,493,802.72 pursuant to the guarantee commitment to Lockheed while expenses totaled $139,962.47. As of July 31, 1973, the Amortized Discount on the Board's investment was $175,690.65. The following comparative Income Statements covering the periods

[3] At a meeting held August 20, 1973, the Board approved an additional borrowing, of up to $30 million, to be drawn down during the period of August 21, 1973 through September 11, 1973.

[4] This is because these loans do not have the ready marketability of Government bills.

TABLE 1.—*Interest Rate and Guarantee Fees on Loan Takedowns by Lockheed Under Government Guarantee*

Loan Takedown: Date	Loan Takedown: Amount (in millions)	Loan Takedown: Maturity	Cumulative Loans Outstanding (in millions)	Interest Rate Including ⅜%	Guarantee Fee	Total Finance Charges	Weighted Average Cumulative Finance Charge on Loans Outstanding
September 14, 1971	$50	June 14, 1972	$ 50	5.70%	2.3%	8.00%	8.000%
November 18, 1971	$25	August 18, 1972	$ 75	5.00%	2.3%	7.30%	7.767%
January 26, 1972	$25	October 26, 1972	$100	4.30%	2.3%	6.60%	7.475%
June 14, 1972*	$50	March 14, 1973	$100	4.95%	2.3%	7.25%	7.100%
August 18, 1972*	$25	May 18, 1973	$100	5.25%	2.3%	7.55%	7.163%
August 24, 1972	$30	May 24, 1973	$130	5.25%	2.3%	7.55%	7.252%
October 26, 1972*	$25	July 26, 1973	$130	5.95%	2.3%	8.25%	7.569%
January 11, 1973	$20	October 11, 1973	$150	5.90%	2.3%	8.20%	7.653%
March 14, 1973*	$50	December 14, 1973	$150	6.50%	2.3%	8.80%	8.170%
May 18, 1973*	$25	February 19, 1974	$150	7.20%	2.3%	9.50%	8.495%
May 24, 1973*	$30	February 25, 1974	$150	7.25%	2.3%	9.55%	8.895%
July 26, 1973*	$25	April 26, 1974	$150	8.60%	2.0%	10.60%	9.287%

* This takedown was a renewal of a previous borrowing maturing on this date.

from Inception through July 31, 1972, and from August 1, 1972, through July 31, 1973, and the Statement of Financial Condition as of July 31, 1973, were prepared by the Bureau of Accounts, Division of Financial Management. The "Liabilities" of $37,382 appearing in the Statement of Financial Condition represent estimated expenses incurred by the Board not yet paid.

Actions Taken By The Board

EXPANDED MONITORING ACTIVITIES

During the year under review, the Board took a number of additional actions to assure satisfactory administration of the 1971 Credit Agreement. Following a report on higher than forecast costs incurred by Lockheed on the L–1011 program, noted in last year's Annual Report, the Board considered the possible alternatives available to assist it in its monitoring activities. The Board chose to utilize the services of an individual with technical experience together with an intensification of the monitoring efforts of its staff and fiscal agent. The Board authorized Secretary Shultz, as Chairman of the Board, to select a Technical Analyst who could assist the Board in a number of areas of concern and who had experience with the aerospace industry and the problems associated with airframe manufacturing. Such an analyst was selected [5] and began work for the Board in April 1973. The Board determined that he should be employed on a full time basis for about six months, with the possibility that his services may be required further thereafter.

Since the commencement of his employment, the Technical Analyst has been reviewing the L–1011 manufacturing process, procedures and controls.

The Board also met with representatives from the Agent Banks [6] on September 12, 1972, to discuss with them the L–1011 program and the higher than anticipated costs experienced by Lockheed on

[5] Captain D. W. Hazelton, U.S.N. (Ret.) served 30 years as a Naval Aviator including command positions. Since 1951 he has been involved in hardware development and production management, serving as Development Engineering and Project Manager. For three years he was Director of Quality Assurance for the New England area of the Defense Contract Administration Service, and his last military duty was in the Office of the Secretary of Defense as Deputy Director for Product and Production Engineering and Staff Director for Product Assurance.

[6] The Agent Banks are Bankers Trust Company and Bank of America National Trust and Savings Association.

Emergency Loan Guarantee Board
Income Statements

		Inception Through July 31, 1972		August 1, 1972 Through July 31, 1973
Income				
Guarantee Fees Earned	$1,711,988.35		$3,196,557.36	
Commitment Fees Earned	364,287.64		297,245.36	
Amortized Discount	23,560.15		175,690.65	
Total Income		$2,099,836.14		$3,669,493.37
Expenses				
Fiscal Agency Expenses	$ 61,131.39		$ 80,233.79	
Legal Expenses	56,395.83			
Administrative Expenses	13,953.17		59,728.68	
Total Expenses		131,480.39		139,962.47
Net Income		$1,968,355.75		$3,529,530.90

Statement of Financial Condition
July 31, 1973

Assets		
Available Cash		$ 101,514.03
Accrued Receivables:		
Guarantee Fees Receivable	$ 282,328.76	
Commitment Fees Receivable	41,095.00	323,423.76
Investments		
U.S. Treasury Bills (Amortized Value)		5,110,330.86
Total Assets		$5,535,268.65
Liabilities		
Accounts Payable and Accruals		$ 37,382.00
Equity		
Retained Earnings		5,497,886.65
Total Liabilities and Equity		$5,535,268.65

Schedule of Investments
July 31, 1973

	Maturity Date	Face Value	Unamortized Discount	Amortized Value
Treasury Bills	9/25/73	$ 725,000	$ 6,014.50	$ 718,985.50
Treasury Bills	12/18/73	505,000	10,494.18	494,505.82
Treasury Bills	12/18/73	840,000	17,750.68	822,249.32
Treasury Bills	3/12/74	645,000	26,613.66	618,386.34
Treasury Bills	3/12/74	920,000	36,643.85	883,356.15
Treasury Bills	6/ 4/74	725,000	45,013.34	679,986.66
Treasury Bills	6/ 4/74	955,000	62,138.93	892,861.07
Totals		$5,315,000	$204,669.14	$5,110,330.86

Prepared by: Bureau of Accounts,
Division of Financial Management
August 21, 1973

that program. In addition, periodic meetings, held at Lockheed's corporate headquarters, were initiated on a frequent and detailed basis to review actual versus programmed performance of the L-1011 program as well as other corporate developments. These meetings are attended by representatives of Lockheed, the Agent Banks, the Board's staff and the fiscal agent. Arthur Young & Company, Lockheed's independent auditor, also attends these meetings. During the intervals between the monitoring meetings, the fiscal agent receives weekly submissions from Lockheed of key charts and schedule presentations of the type presented at the monitoring meetings and promptly reports to the Board any significant developments in the L–1011 program or in Lockheed's other operations.

The expanded monitoring activities also utilize the review procedures initiated in the early stages of the program. The fiscal agent continues to receive and review all financial statements, monthly and quarterly unaudited financial statements of Lockheed and its pledged subsidiaries, quarterly reports of the L–1011 production program, and annual audited financial statements.

At the request of the fiscal agent and with approval of the Board, Arthur Young & Company prepared a report describing and evaluating Lockheed's accounting and forecasting procedures and the auditor's own organization and procedures in auditing Lockheed.

MATERIAL CONSENTS AND AMENDMENTS TO THE 1971 AGREEMENT

In November 1972, the Board considered and adopted an amendment to the 1971 Credit Agreement and the Security and Pledge Agreement proposed by Lockheed, permitting its subsidiary, Lockheed Missiles and Space Company, Inc. ("LMSC"), to establish a new pledged subsidiary, Lockheed Technical Services Company, Inc. ("LTSC"). As this proposal neither diminished the collateral value of these subsidiaries nor added to the overall business risk associated with their operations and was in line with Lockheed's business judgement, the Board considered it appropriate to grant the request, finding that such action was not inconsistent with the reasonable protection of the interests of the United States. Implementation by Lockheed has, however, not yet taken place.

On March 7, 1973, the Board, upon application by Lockheed, consented to the acquisition of the Murdock Machine and Engineering Company, Division of CCI Corporation in order to prevent disruption of production of the L–1011. This Division was the manufacturer of the L-1011 wing pylon [7] under contract from Lockheed, and L-1011 wing slats under sub-contract from Avco Corporation. On January 3, 1973, Lockheed had been advised that CCI was in a serious financial situation, resulting in part from excessive costs incurred in manufacturing L-1011 pylons and wing slats at the Murdock Division. After reviewing its available options, Lockheed determined that it was virtually impossible to have the pylons produced elsewhere without suffering serious delays in delivery and substantial price increases. A lengthy delay in pylon and slat deliveries could have shut down all L-1011 production operations. Accordingly, to maximize the objective of controlling expenditures and maintaining scheduled performance on the L-1011 program, Lockheed concluded that the only feasible course of action was to acquire the Murdock facilities. The Murdock Division was acquired in April 1973 for about $7.2 million.

In March 1973 Lockheed additionally requested consent for Lockheed Electronics Company, Inc., ("LEC"), to acquire for about $1 million the assets of the Controls Division of Leach Corporation, Azusa, California. The acquisition of that Division, which manufactures high precision tape recorders, was for the purpose of expanding and complementing the product-line of the Industrial Technology Division of LEC. Although this acquisition was not directly related to the continuation of the L-1011 program, the Board, after due deliberation and taking note of the relatively small size of the acquisition, granted its consent on April 18, 1973.

In connection with the purchase of certain property ("Plant B-1") from the General Services Administration ("GSA") and the payment of a possession fee liability, both arising from a contract entered into in April 1970, Lockheed requested the Board's consent to give GSA promissory notes secured by the property to be acquired. The Board granted its consent in June 1973 after considering the transaction was contemplated by the 1971 Agreement in substantially the form presented, the notes would reduce cash outflow during a period of substantial cash requirements and the property to be used to secure the notes had not been part of the collateral pool described in the 1971 Agreement.

In June 1973, Lockheed requested the Board's consent for Lockheed Missiles and Space Company to submit proposals and to perform subsequent contracts with respect to the development and sale of body stabilized spacecraft for use with commercial communica-

[7] The pylon is the assembly mounting the engine to the wing and is also a distribution center for the engine's electrical, fuel and hydraulic systems.

tions satellites. The Board recognized that the proposal represented a logical extension of LMSC's existing technology to commercial applications and granted its consent in July 1973.

Also in June 1973, the Board considered a proposed amendment to the 1971 Credit Agreement that would allow Lockheed to escrow prepayments received from foreign government customers to secure advanced payments or performance guarantees. In view of the fact that this amendment was important to Lockheed in obtaining foreign sales, the Board approved the amendment.[8]

SPECIAL REPORT TO CONGRESS, JUNE 28, 1973

Section 12 of the Emergency Loan Guarantee Act requires that the Board submit to Congress, not later than June 30, 1973, a special report stating the Board's recommendations with respect to the need to continue the guarantee program beyond December 31, 1973, the termination date of the Board's authority to enter into any guarantee or to make any commitment to guarantee. Such a report was issued on June 28, 1973 and recommended that the guarantee program provided by the Act not be continued beyond December 31, 1973. The report also noted that the Board has continuing authority to administer the present guarantee commitment to Lockheed and its lending banks beyond December 31, 1973.

The report cited that the emergency loan guarantee program was established by the Act in 1971 and Lockheed was the only company that has been granted assistance, with a commitment to its lending banks to guarantee loans for up to $250 million. The Board stated its opinion that, "there is a high probability that the Government will not be called upon to make any payments under the guaranteed portion of Lockheed's indebtedness." Further, the Board saw no need to continue the guarantee program to give it, "any additional authority to administer the 1971 Credit Agreement with Lockheed and its 24 lending banks." The report stated that while it is possi-

[8] In July 1973 Lockheed requested the Board's consent for Lockheed Properties, Inc. to transfer title to three parcels of undeveloped land to Lockheed which in turn would contribute the parcels to a retirement fund trustee. The value of the contribution is to be equal to appraisals received from M.A.I. Appraisers ($9.1 million). The contribution of this property had the effect of reducing Lockheed's borrowing requirements.

In addition, Lockheed requested Board consent to allow the corporation to guarantee contingent repayment of provisional payments of approximately $42 million received from the Department of the Navy in respect to the 1971 settlement of certain ship contract claims.

At its meeting held August 20, 1973, the Board granted its consent to the two above requests.

ble that circumstances similar to the Lockheed situation could arise in the future, "such circumstances are likely to be rare and should be met by a specific request by the Administration to the Congress for authority tailored to the then existing factual situation rather than by use of any continuing general authority delegated by the Congress."

BOARD RULES AND PROCEDURES

Pursuant to the requirements of the Freedom of Information Act, the Board issued rules and procedures regarding the availability of information, effective April 25, 1973.

PART II

Lockheed's Operations

During the period covered by this report the composition of Lockheed's operations became increasingly commercially oriented as the L–1011 program progressed.

L–1011 Program

GENERAL

The rate of L–1011 deliveries increased during the period and substantial progress was made in new sales. The L–1011 program was, however, not without its problems. Delivery delays and engine reliability problems were serious in late 1972 and early 1973. However, as the period under review drew to a close, there were indications that these problems were being resolved, and in-service performance of the aircraft was reported by the airline customers as quite good. Because of early manufacturing delays, assembly line disruptions, and the effort to meet customer delivery schedules, Lockheed's costs of production were higher than expected. Costs, nevertheless, continued to decline as experience was gained and now appear to be under control.

NEW SALES

Since the First Annual Report, substantial new orders have improved Lockheed's marketing outlook. Cumulatively, 199 L–1011's had been ordered at June 30, 1973 (122 firm, 35 of which were delivered, and 77 options), as compared with 152 ordered at July 31, 1972 (104 firm, 7 of which were delivered, and 48 options). Included in new orders were two major new customers, All Nippon Airways, ordering 10 firm and options for 11 aircraft, and British European Airways, ordering 6 firm and options for 12 aircraft. Six additional options from Delta Air Lines, the firming of renegotiated contracts with Pacific Southwest Airlines and Court Line Aviation Ltd., and the order for two aircraft from Lufttransport-Unternehmen GmbH ("LTU") further strengthened the L–1011 order situation (*see Table 2*).

TABLE 2.—*Lockheed Aircraft Corporation Firm and Option Orders*

	As of August 30, 1971			As of July 31, 1972			As of June 30, 1973		
	FIRM	OPTION	TOTAL	FIRM	OPTION	TOTAL	FIRM	OPTION	TOTAL
Eastern Air Lines	37	13	50	37	13	50	37	13	50
Trans World Airlines	33	11	44	33	11	44	33	11	44
Delta Air Lines	18	6	24	18	6	24	18	12	30
Air Canada	10	9	19	10	9	19	10	9	19
Pacific Southwest Airlines	2	3	5	2	3	5	3	2	5
Haas/Turner	2		2	2		2	2		2
L–1011 Oregon Ltd.		3	3		3	3		3	3
Court Line				2	3	5	2	3	5
British European Airways							6	12	18
L T U							1	1	2
All Nippon Airways							10	11	21
Total *	102	45	147	104	48	152	122	77	199
Delivered	0	0	0	7	0	7	35	0	35
Balance	102	45	147	97	48	145	87	77	164

Source: Lockheed Aircraft Corporation

* Totals as of August 30, 1971 do not include the one firm and one option order from Air Jamaica that Lockheed removed from its backlog on advice from the airline that it would be unable to accept delivery.

As a result of discussions with L–1011 customers, a market study of projected traffic, capacity, and related new equipment requirements in the trijet market was conducted. Lockheed concluded that the potential L–1011 market through 1978 for current and new customers was 350 aircraft. As a result, Lockheed's February 1973 financial forecast premised the L–1011 production program on more than the 220 aircraft previously forecasted.

Subsequently, the failure in the first half of 1973 of domestic passenger mile traffic to grow at the average rate of 10–12 percent expected by some of Lockheed's airline customers and premised in the February 1973 financial forecast has led to a reexamination of the size and timing of the L–1011 program.[9] The general reexamination, started as the period covered by this report drew to a close, could result in a stretchout of some of the deliveries anticipated. Lockheed expects to complete its reexamination in September or early October 1973, which will reflect the impact of such a delivery stretchout on a consolidated company-wide basis.

PRODUCTION STATUS

There have been 37 L–1011's delivered through July 1973.[10] Included were first deliveries to Haas-Turner, Air Canada, Court Line, and LTU as well as fleet additions to Eastern Air Lines ("Eastern") and Trans World Airlines ("TWA"). Scheduled deliveries, as projected in Lockheed's February 1973 forecast, experienced delays averaging 4 weeks in early 1973, but were essentially on schedule by June 30, 1973.

Delivery schedules have been revised in each forecast to reflect latest total sales orders from current and new customers and to incorporate the latest projected program production and productivity improvement efforts.

Certain L–1011 suppliers have had problems since June 30, 1972. There was a strike from June 16, 1972 to September 8, 1972 at Lucas Aerospace Ltd., Rolls-Royce's supplier for the engine thrust reverser and firewall. This strike disrupted production and caused out-of-station engine installations, but not delay L–1011 deliveries. Production problems at the Murdock Machine and Engineering Division of CCI Corporation led to Lockheed's purchase of that

[9] The lower than projected U.S. passenger mile traffic appears to be a general problem affecting the wide-bodied aircraft market.

[10] Two additional L–1011's were delivered in August 1973 bringing total deliveries to 39.

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Division in April 1973.[11] These problems have not had a material effect on L–1011 production schedules, although they have resulted in increased costs.

Continued testing, certification, and product support activities proceeded normally during the period. Final basic static test work was completed during the fourth quarter of 1972 and the fatigue test program for the total aircraft structure continued as planned.[12] The static test fuselage is being converted to a full scale mockup which Lockheed believes will aid in reducing costs of manufacture and help in marketing the L–1011 aircraft. Data submittals required by the Federal Aviation Administration subsequent to the issuance of the L–1011 type certificate on April 14, 1972 were completed and all required approvals received. British Civil Aviation Authority certification of the 400 passenger high density tour configuration of the L–1011, required for the Court Line aircraft, was awarded in February 1973. The LTU aircraft received German certification by the Luftfahrt Bundesamt in May 1973.

The Rolls-Royce RB 211–22C engine was the initial production engine envisioned to be upgraded to the RB 211–22B configuration. The major difference between the two configurations is that the –22C engine was certified at lower ambient air operating temperature and higher specific fuel consumption than contract specifications. The first of these –22B engines was delivered to Lockheed in March 1973 and two ship sets have now been test flown at Palmdale.[13] Results of specific air range tests conducted in a TWA aircraft have been encouraging. The –22B certification by the British CAA and United States FAA has been received, subject only to certain subsequent fan disc qualifications and aircraft delivered subsequent to June 1973 will be equipped with the –22B engine. As of June 30, 1973, Rolls-Royce had delivered 138 production engines to Lockheed and an additional 47 spare engines to airline customers.

IN-SERVICE PERFORMANCE

Airline and passenger acceptance of the L–1011 aircraft has been reported to be generally favorable with satisfactory operating results achieved and with no more than the usual initial difficulties associated with the introduction of a new aircraft. The observed dispatch

[11] Further information is set forth under subcaption, "Material Consents and Amendments to the 1971 Agreement," Part I.

[12] This correlates to about thirty years of aircraft life in regular airline use.

[13] Palmdale is the assembly plant for the L–1011 aircraft.

reliability status for the first half of 1973 has averaged approximately 93.6%,[14] which compares favorably to the other wide-bodied jets after corresponding periods in service.

On December 28, 1972, an RB 211 engine fan disc failure caused an inflight engine shutdown resulting in an unscheduled landing of an Eastern L–1011 flight. A similar incident occurred on a TWA flight early in 1973. The problems, associated with the failure of the RB 211 engine fan disc, were resolved after an extensive investigation traced the origin to be the forging process and the titanium alloy of which the disc was made. The resultant disc had a tendency to develop cracks which could ultimately lead to the detachment of the fan blades from the hub.

The immediate impact of this problem on the airlines operating the L–1011 was to increase costs of maintenance and create schedule conflicts. The airlines were required to have the engine fan discs inspected at specified intervals, and further to have the fan discs replaced after a certain number of cycles.[15] Rolls-Royce has ordered the discs from an alternate supplier who will use a different titanium alloy in forging the disc. Empirical results confirm this solution, which will improve airline cost factors by eliminating the fan disc inspections and replacement cycles now required. Deliveries of the new discs are expected in Fall 1973.

Lockheed has instituted a number of improvements on the L–1011 that were deemed necessary after initial production efforts, and has worked to resolve certain other in-service problems normal for new aircraft.

On December 29, 1972, an Eastern L–1011 crashed into a swamp outside of Miami, Florida, claiming 101 lives of the 176 on board. Lockheed engineering specialists, field service representatives, and systems experts assisted the National Transportation Safety Board ("NTSB") in determining the exact cause of the crash. The NTSB, in its official findings, concluded that the probable cause of the accident was, "failure of the flight crew to monitor the flight instruments during the final four minutes of flight, and to detect an unexpected descent soon enough to prevent impact with the ground. Preoccupation with a malfunction of the nose landing gear position indicating system distracted the crew's atten-

[14] The remaining 6.4% includes all mechanical delays greater than fifteen minutes, and cancellations, reported by the airlines.

[15] A cycle is defined as one sequence of start, flight and shutdown.

tion from the instruments and allowed the descent to go unnoticed." [16]

HIGHER COST ASSOCIATED WITH INITIAL AIRCRAFT DELIVERIES

The Rolls-Royce receivership resulted in substantial manufacturing disruption of the L–1011 program in 1971 and led to schedule changes and significant problems in rehiring and training new personnel. After a delay of approximately eight months, during which production was all but halted on the program while a period of program reorganization and renegotiation took place, delivery schedules had to be revised. This situation also affected the production and financial planning functions by increasing the unknown factors associated with reopening the major assembly line. When the program was restarted, many of Lockheed's former employees could not be rehired. As a result, an inexperienced work force was employed with attendant inefficiency resulting in a higher than anticipated level of training. This and other disrupting effects, including inventory shortages and out-of-station work, continued to be felt through 1972 and into the early months of 1973. These difficulties led to a number of higher cost estimates in the last half of 1972, which in turn resulted in a new financial forecast completed in February 1973.

The effort to make up for production delays did not end as planned in early 1972 with deliveries of the first twelve aircraft. To meet contract delivery dates, the rate of production was raised. The rise in production was especially marked in the last two months of 1972, in an effort to meet scheduled year-end deliveries, and in early March 1973, to meet spring delivery dates. The pace tended to level off in the second quarter of 1973, as the desired rate of production was reached, and by the end of June 1973 Lockheed's deliveries were about on schedule.

The effort to raise production levels was generally accompanied by increasing efficiency during the period covered by this report. The rise in productivity was slowed temporarily by the extra manhours employed in the special "out of station" efforts to meet delivery dates and compensate for production system control inadequacies and was thus less rapid than planned during late 1972 and,

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[16] NTSB Aircraft Accident Report, Adopted June 14, 1973, Report No. NTSB-AAR-73-14.

to a lesser extent, the first quarter of 1973, with the result that production costs were higher than expected.[17]

ACTION TAKEN TO IMPROVE PRODUCTION EFFICIENCY

In the first quarter of 1973 significant changes occurred in manufacturing operations, with many installations and functional tests being moved to earlier positions in the assembly line. This permitted work to be completed, and tested, before subsequent installations impeded the work. By the end of the second quarter, the assembly line was much more stable in this respect and an opportunity for true productivity increases in each operation was much improved. Lockheed also implemented a training program aimed at increasing the production efficiency of the Palmdale work force.

Lockheed's effort to improve production efficiency included a number of management changes most of which occurred at Lockheed's Palmdale facility, where the L–1011 is assembled. Senior corporate level management has remained unchanged since August 1, 1972, with the exception of the addition of James D. Hodgson, former Secretary of Labor, as Senior Vice President–Corporate Relations. Lockheed added two additional outside directors, Leslie N. Shaw, President and Chairman of the Board, First City Savings and Loan Association, Los Angeles, California, and Michael Berberian, Secretary-Treasurer of Berberian Brothers, Inc. The Board of Directors is currently comprised of seventeen members, seven present or former Lockheed officers and ten outside directors.[18]

Early in 1973 the Lockheed California Company ("CALAC") [19] identified a number of actions it wished to take in the manufacturing and quality control areas. However, implementation was deferred until the production line would be more stable and the pressure of meeting delivery schedules was eased. Subsequently, in June, the Federal Aviation Administration conducted a survey of quality control procedures at the L–1011 Palmdale assembly facility, as required by their procedures. At about the same time, an independent survey of the Quality Control organization, policies and

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[17] The associated delivery delays, furthermore, delayed cash receipts.

[18] Prior to the guaranteed loan, the Board of Directors consisted of thirteen members, eight affiliated and five not affiliated with the company.

[19] The Lockheed California Company has primary responsibility for the L–1011 program.

procedures was conducted by a group of quality control professionals, not part of CALAC, gathered from other Lockheed companies.

The Company is instituting many changes intended to accommodate the recommendations and findings of the FAA team, the corporate group, and the earlier planned actions. The costs of these changes are in the process of being assessed by the Company, but the Board's staff estimates that at least $3 million will be expended over a twelve to eighteen month period. In the Company's view, the potential benefits should more than offset the costs.

POTENTIAL NEW VERSIONS OF THE BASIC L-1011

During the period Lockheed continued to review the aircraft requirements of its current and potential commercial customers through the end of the 1970's and into the 1980's in an effort to widen or maintain the marketing potential of the basic L-1011 aircraft. Although Lockheed is considering several variations, the most prominent remains a longer range version.[20] A decision by Lockheed to go forward with these plans would require the approval of the Board and a majority of the banks. As yet, no formal proposal has been made to the Board and a final decision will be reached only after the Board has received and evaluated complete information as to the financing, production, and marketing of a proposed new version of the L-1011.

Other Programs

Lockheed's non L-1011 programs have continued to be the financial mainstay of the company's operations. Since mid-1971 these programs have, in the aggregate, exceeded the company's expectations. Growth of the L-1011 program has, however, shifted the company's sales toward commercial markets. Sales to the U.S. Government averaged 88% of total company sales from 1968 to 1972, but represented only 74% of the aggregate in 1972. The percentage of Government sales to total sales is expected to decline further in 1973 and subsequent years, as L-1011 operations are forecast to become a larger source of revenues. The non L-1011 related funded backlog declined $98 million from $1.8 billion at year end 1971 to $1.7 billion at year end 1972.

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[20] The British Government has supported Rolls-Royce's development work on an engine that might be used in such a version.

During 1972 and the first half of 1973, Lockheed's major programs, apart from the L–1011 program, were: the P–3C and S–3A anti-submarine warfare aircraft; the Agena and other space programs; the Poseidon and Trident Missiles programs; and the C–130 and C–5A aircraft.[21]

1972 Financial Results

For the fiscal year ended December 31, 1972, Lockheed's overall operations remained profitable, with its increased inventory substantially financed by Government guaranteed bank loans. Lockheed's year end financial statements, as audited by Arthur Young & Company, Certified Public Accountants, were again qualified with respect to the realization of L–1011 inventories. An additional qualification concerned resolution of the claims on certain ship contracts.[22] Operations for 1972 were affected by delivery delays and higher than expected costs on the L–1011 program; but, better than expected returns from non L–1011 operations tended to offset these adversities. As compared to the fiscal 1971 financial statements and the Financial Forecast 5–71 Adjusted, revised 8–30–71 ("Baseline Forecast"), the 1972 balance sheet reflected a substantially increased L–1011 inventory position, emphasizing the importance of this program to Lockheed's present and future operations.

YEAR END OPERATING STATEMENT

Consolidated operations for the year ended December 31, 1972 resulted in a net profit of $16.2 million on sales of $2.47 billion as compared with a net profit of $15.4 million on sales of $2.85 billion for the year ended December 26, 1971 (*see Table 3*).[23]

The sales decline between fiscal 1971 and 1972 can be attributed to the conversion of certain defense contracts in early 1971 from a fixed-price basis to a cost-plus or cost-reimbursement basis. These changes resulted from settlements with the Department of Defense on related contract claims. The contract changes eliminated further losses on these contracts after substantial write-offs were made and

[21] The last scheduled C–5A delivery was made to the U.S. Air Force in May 1973.

[22] Further information is set forth under subcaption, "Year End Balance Sheet," Part II.

[23] Net earnings for 1971 and 1972 included extraordinary income from the sale of land amounting to $3.8 million and $3.2 million, respectively.

TABLE 3.—*Lockheed Aircraft Corporation 1972 Operating Statement As Compared With Fiscal 1971 and Baseline Forecast*

(In Millions of Dollars)

	1971 Actual	1972 Actual	Change	Baseline Forecast	1972 Less Baseline Forecast
Sales	2,852.4	2,472.7	−379.7	2,602.3	−129.6
Interest and Other Income	6.4	6.7	+ .3	6.3	+ .4
Total	2,858.8	2,479.4	−379.4	2,608.6	−129.2
Interest Expense	33.3	47.5	+ 14.2	54.5	− 7.0
Other Expenses & Costs	2,800.1	2,404.2	−395.9	2,524.9	−120.7
Total	2,833.4	2,451.7	−381.7	2,579.4	−127.7
Operating Income	25.4	27.7	+ 2.3	29.2	− 1.5
Provision for Taxes	13.8	14.7	+ .9	14.2	+ .5
Total	11.6	13.0	+ 1.4	15.0	− 2.0
Gain on Sale of Land	3.8	3.2	− .6	—	+ 3.2
Net Income	15.4	16.2	+ .8	15.0	+ 1.2

Source: Lockheed Aircraft Corporation. Columns "Actual" taken from statements certified to by Arthur Young & Company, Certified Public Accountants.

simultaneously provided for a $680 million one-time sales increase adjustment as certain work-in-process inventories were credited to sales.

Lockheed's operating results in 1972 also showed a shift in corporate sales mix. Sales of commercial products, primarily L–1011 program sales, increased to 18% of total sales from 3% in fiscal 1971.

During 1972, seventeen L–1011's were delivered. (Shortly after year end Lockheed delivered three additional L–1011's.) Although L–1011 sales in 1972 totaled $302 million, Lockheed recorded a loss of $80.5 million on the program (*see Table 4*). L–1011 costs charged to income, through 1972, totaled $238 million—$65 million in disruption costs and $173 million in general and administrative expenses. The actual L–1011 charge to income in 1972 was substantially above the $41.5 million projected in the Baseline Forecast due to higher than expected program costs.[24]

In contrast to losses associated with the L-1011 program, Lockheed's other programs have operated profitably. In 1972, the non L-1011 segments recorded a $155.7 million operating profit, approximately $30 million more than estimated in the Baseline Forecast.

TABLE 4.—*Lockheed Aircraft Corporation*
1972 Net Operating Income As Compared With Fiscal 1971 and Baseline Forecast

(In Millions of Dollars)

	1971 Actual	1972 Actual	Change	Baseline Forecast	1972 Less Forecast
Operating Profit (loss) Other than L-1011 Program	137.0	155.7	+18.7	125.2	+30.5
L-1011 Program	(78.3)	(80.5)	— 2.2	(41.5)	—39.0
Less: Interest expense	33.3	47.5	+14.2	54.5	— 7.0
Subtotal	25.4	27.7	+ 2.3	29.2	1.5
Less: Provision for taxes	13.8	14.7	+ .9	14.2	+ .5
	11.6	13.0	+ 1.4	15.0	— 2.0
Gain on Sale of land	3.8	3.2	— .6	—	+ 3.2
Net Income	15.4	16.2	+ .8	15.0	+ 1.2

Source: Lockheed Aircraft Corporation.

YEAR END BALANCE SHEET

Changes in Lockheed's asset accounts (*see Table 5*) at December 31, 1972 from December 26, 1971 and from the Baseline Forecast further emphasizes the significance of the successful liquidation of L-1011 inventories. The corporation's 1972 statement indicates a moderate decline in all principle assets, except inventories, when compared to fiscal 1971 figures. The net inventory change

[24] This total in 1972 is comprised of $25 million in delayed disruption costs stemming from the Rolls-Royce receivership and $55.5 million in applicable L-1011 general and administrative expenses.

TABLE 5.—*Lockheed Aircraft Corporation Consolidated Balance Sheet Comparisons*

(In Millions of Dollars)

Assets	12/26/71 Actual	12/31/72 Actual	Change	Baseline Forecast	1972 Less Baseline Forecast
Cash & Equivalent	102	89	− 13	51	+ 38
Receivables (Net)					
U.S. Government	143	139	− 4	119	+ 20
Other	39	36	− 3	35	+ 1
Inventories (Net)	851	1,066	+215	928	+138
Prepaid Expenses	30	31	+ 1	33	− 2
Total Current Assets	1,165	1,361	+196	1,166	+195
Fixed Assets (Net)	300	268	− 32	318	− 50
Other Assets	6	3	− 3	4	− 1
Total Assets	1,471	1,632	+161	1,488	+144
Liabilities & Net Worth					
Accounts Payable	187	229	+ 42	172	+ 57
Deferred Taxes	49	65	+ 16	58	+ 7
Retirement Plan	76	80	+ 4	67	+ 13
Salaries & Wages	88	93	+ 5	69	+ 24
Other Current Liabilities	114	138	+ 24	56	+ 82
Total Current Liabilities	514	605	+ 91	422	+183
Notes Payable—Banks	475	530	+ 55	545	− 15
Notes Payable—Plant—B-1	—	—	—	25	− 25
Deferred Liability to U.S. Government	100	100	—	100	—
Debentures	132	131	− 1	131	—
Net Worth	250	266	+ 16	265	+ 1
Total Liabilities & Net Worth	1,471	1,632	+161	1,488	+144

Source: Lockheed Aircraft Corporation. Columns "Actual" taken from Statements certified to by Arthur Young & Company, Certified Public Accountants.

between the year end 1972 and 1971 balance sheets was an increase of $215 million as compared with a $156 million increase in that account between the year end 1971 and 1970 balance sheets.

The closing 1972 balance of "Cash and Equivalent" declined in comparison to year end 1971; however, average balances for the year, based on monthly data, were about $89 million. Receivables also declined moderately, by approximately $6.5 million from fiscal 1971. Included in accounts receivable is $13 million in claims from the Department of the Navy relating to ship construction contracts.[25] Net fixed assets also decreased between the two fiscal dates, reflecting depreciation charges and property sales well in excess of property, plant and equipment additions.

The increase in inventories from 1971 to 1972, the most significant asset change between the fiscal periods, reflected increased L-1011 program investment (*see Table 6*).

TABLE 6.—*Lockheed Aircraft Corporation Inventory Position*

(In Millions of Dollars)

	12/26/71	12/31/72	Change
Work-in-process	1,267	1,514	+247
Materials and spare parts	81	112	+ 31
Advances to subcontractors	128	132	+ 4
Gross inventories—Total	1,476	1,758	+282
L-1011	1,027	1,389	+362
Less: advances and progress payments	625	692	+ 67
Net inventories—Total	851	1,066	+215
L-1011	741	959	+218

Source: Lockheed Aircraft Corporation.

In 1972, L-1011 related gross inventories increased by $362 million and net inventories increased by $218 million. Other programs decreased gross and net inventories by $80 million and $3 million, respectively. The L-1011 program thus represented about 90% of net inventories as reported on December 26, 1971 and December

[25] Lockheed has claims on the Department of the Navy relating to certain ship construction contracts. In 1971, Lockheed and the Department of the Navy reached a tentative agreement settling for $62 million company claims of $159 million. The agreement was subject to further administrative proceedings within the Department of the Navy. Lockheed received provisional payments of $49 million, with the balance to be paid on the completion of the administrative proceedings. In May 1973 Lockheed filed with the Armed Services Board of Contract Appeals seeking payment of the $13 million remaining under the above settlement or, in the alternative, payment for claims for the full $159 million alleged. The Navy Contracting Officer issued his final decision on June 14, 1973, stating that Lockheed had justified claims in the amount of only about $7 million and demanded return of the provisional payments. Subsequently, Lockheed negotiated a deferred payment agreement with the Department of the Navy providing for the retention of the provisional payments pending the outcome of its appeals.

31, 1972. More than half of Lockheed's total assets are reflected in inventories, which are financed mainly through bank borrowings and advances and progress payments from customers.

Notes payable, which increased $55 million from $475 million at December 26, 1971 to $530 million at December 31, 1972, were $15 million less than anticipated in the Baseline Forecast.[26]

In June 1973, Lockheed consummated the purchase of Plant B–1 [27] from the General Services Administration for approximately $30 million as contemplated by the 1971 Agreement. As a result, Lockheed issued notes for accrued possession fees of $5.7 million which will be payable in two equal installments by mid-1975 and $27 million, payable over a 15-year period, for the purchase of the plant.

Net worth as of December 31, 1972 showed a $16.2 million increase over December 26, 1971 as a result of earnings retained by Lockheed.

At year end 1972 Lockheed was in compliance with required covenants of the Credit Agreement relating to working capital, total liabilities and net worth, as those terms are defined under that agreement. In particular, working capital of $226 million at year end 1972 favorably compared with the $177 million reported at year end 1971, and exceeded the specified minimum required in the Credit Agreement by $96 million.

First Half 1973 Financial Results

For the six months ended July 1, 1973, Lockheed reported a net profit of $7.9 million from operations on sales of $1.3 billion and income from most programs equaled or bettered the latest financial forecast. As of July 1, 1973, L–1011 net inventories had increased $80 million from the year end 1972 level, to a balance in excess of $1 billion. Bank borrowings totaled $550 million [28] at this date as compared with a projected balance of $515 million in the Baseline Forecast. However, borrowings were in line with the February 1973 forecast projections. Lockheed's cash requirements

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[26] Borrowings increased $20 million to $550 million in January 1973.

[27] Plant B–1 is currently being used by Lockheed in the manufacture of L–1011 and other aircraft. Additional information is set forth under subcaption, "Material Consents and Amendments to the 1971 Agreement," Part I.

[28] Further information is set forth under subcaption, "Guaranteed Borrowings of Lockheed Aircraft Corporation," Part I.

were eased somewhat due to the L–1011 program receipts stemming from the 18 deliveries over the period. The total L–1011 costs charged to income, from inception through June 1973, was $273 million.

Cash Flow

Lockheed's cash disbursements exceeded cash receipts during 1972 primarily resulting from the L–1011 program. In 1973, cash requirements are also expected to exceed revenues on the L–1011 program; however, on a corporate basis cash receipts from operations are expected to match cash expenditures. It appears that Lockheed's borrowing requirement for 1973 will approximate its debt service requirement. Lockheed is forecasting that the L–1011 program will begin generating cash in 1974, thus providing a positive corporate cash flow. Lockheed's February 1973 forecast indicates sizable paydowns on guaranteed borrowings beginning in 1974 as a result of this positive cash flow.[29]

Assessment of the Government's Position

Present indications are that the L–1011 program will ultimately prove to be successful. Lockheed's recent experience with the L–1011 program has shown that Lockheed can produce with increasing efficiency and meet delivery schedules. In addition, Lockheed's other programs have, in general, given better than anticipated financial results. The unpredictable nature of the aerospace industry has led, however, to a number of shifts in Lockheed's repayment schedule.

Mainly as a result of higher than anticipated L–1011 program costs, a current weak aircraft market and the resultant stretched-out delivery schedule, Lockheed now anticipates that its guaranteed borrowings will be outstanding for a greater length of time than was originally estimated when the Guarantee legislation was being considered in 1971.[30] Lockheed's latest forecast projects final payment of the guaranteed borrowings to occur in the third quarter of

[29] Based on Lockheed's six-month cash projections, the maximum borrowings under Government guarantee, during 1973, will occur in the third quarter in the amount of $180 million with repayment early in the fourth quarter of about $10 million.

[30] In addition, changes in Department of Defense procurement regulations have increased Lockheed's working capital requirements which in turn extend borrowing requirements.

1975.[31] In addition, total borrowings outstanding would at certain periods, according to Lockheed's latest forecast, exceed the original schedule of borrowing as set forth in Section 4 of the 1971 Credit Agreement (*see Chart 1*). As these facts become firm, the Board will take appropriate action.

The Board continues to be of the opinion that there is a high probability that the Government will not be called upon to make any payments under the guaranteed portion of Lockheed's indebtedness. However, if any such Government payments are required, the Government's position at the present time remains adequately protected, in the Board's opinion, by the pool of collateral under the 1971 Agreement in which the Government has a priority interest.

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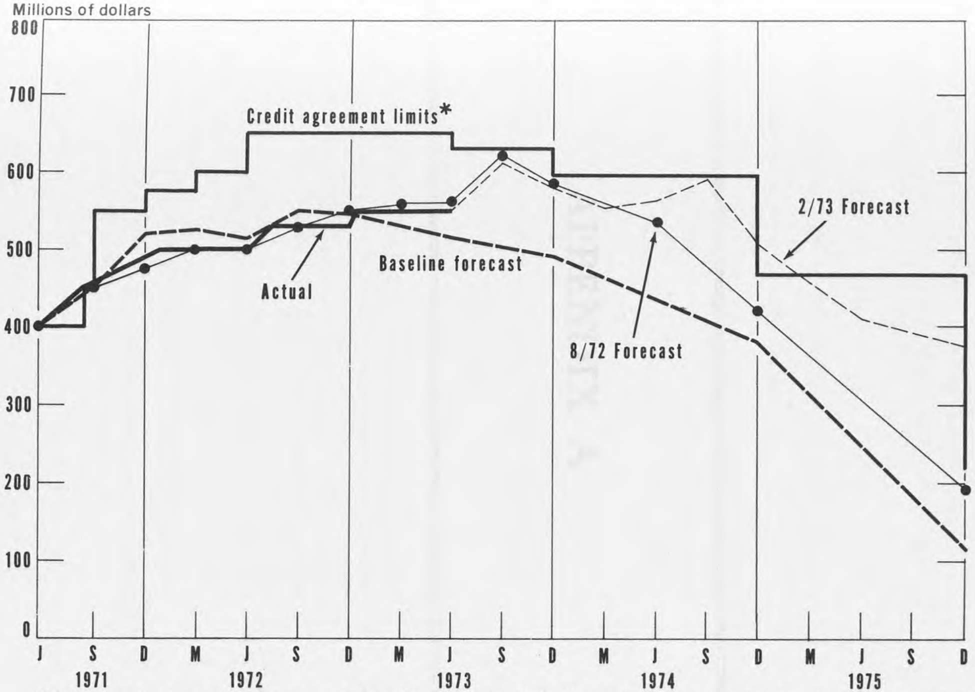
[31] The 1971 Agreements require repayment of the guaranteed portion of the borrowings by the end of 1975 unless the Board and lending banks consent to extend the maturity date as provided for under the Act.

Chart 1

LOCKHEED AIRCRAFT CORPORATION BANK BORROWING



*Borrowing limits are reduced by a schedule (shown on chart). Further reductions are required to the extent that Lockheed takes notes from customers in payment for L-1011's in amounts less than estimated in the baseline forecast.

Source: Lockheed Aircraft Corporation, Private data.

APPENDIX A

Public Law 92-70
92nd Congress, H. R. 8432
August 9, 1971

An Act

To authorize emergency loan guarantees to major business enterprises.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, Emergency Loan Guarantee Act.

SHORT TITLE

SECTION 1. This Act may be cited as the "Emergency Loan Guarantee Act".

ESTABLISHMENT OF THE BOARD

SEC. 2. There is created an Emergency Loan Guarantee Board (referred to in this Act as the "Board") composed of the Secretary of the Treasury, as Chairman, the Chairman of the Board of Governors of the Federal Reserve System, and the Chairman of the Securities and Exchange Commission. Decisions of the Board shall be made by majority vote. Membership.

AUTHORITY

SEC. 3. The Board, on such terms and conditions as it deems appropriate, may guarantee, or make commitments to guarantee, lenders against loss of principal or interest on loans that meet the requirements of this Act.

LIMITATIONS AND CONDITIONS

SEC. 4. (a) A guarantee of a loan may be made under this Act only if—

(1) the Board finds that (A) the loan is needed to enable the borrower to continue to furnish goods or services and failure to meet this need would adversely and seriously affect the economy of or employment in the Nation or any region thereof, (B) credit is not otherwise available to the borrower under reasonable terms or conditions, and (C) the prospective earning power of the borrower, together with the character and value of the security pledged, furnish reasonable assurance that it will be able to repay the loan within the time fixed, and afford reasonable protection to the United States; and

(2) the lender certifies that it would not make the loan without such guarantee.

85 STAT. 178
85 STAT. 179

(b) Loans guaranteed under this Act shall be payable in not more than five years, but may be renewable for not more than an additional three years.

(c) (1) Loans guaranteed under this Act shall bear interest payable to the lending institutions at rates determined by the Board taking into account the reduction in risk afforded by the loan guarantee and rates charged by lending institutions on otherwise comparable loans. Interest rates determination.

(2) The Board shall prescribe and collect a guarantee fee in connection with each loan guaranteed under this Act. Such fee shall reflect the Government's administrative expense in making the guarantee and the risk assumed by the Government and shall not be less than an amount which, when added to the amount of interest payable to the lender of such loan, produces a total charge appropriate for loan agreements of comparable risk and maturity if supplied by the normal capital markets. Guarantee fee.

Pub. Law 92-70 August 9, 1971

SECURITY FOR LOAN GUARANTEES

SEC. 5. In negotiating a loan guarantee under this Act, the Board shall make every effort to arrange that the payment of the principal of and interest on any plan guaranteed shall be secured by sufficient property of the enterprise to collateralize fully the amount of the loan guarantee.

REQUIREMENTS APPLICABLE TO LOAN GUARANTEES

Stock dividends or other payments, prohibition.

SEC. 6. (a) A guarantee agreement made under this Act with respect to an enterprise shall require that while there is any principal or interest remaining unpaid on a guaranteed loan to that enterprise the enterprise may not—

(1) declare a dividend on its common stock; or

(2) make any payment on its other indebtedness to a lender whose loan has been guaranteed under this Act.

Waiver.

The Board may waive either or both of the requirements set forth in this subsection, as specified in the guarantee agreement covering a loan to any particular enterprise, if it determines that such waiver is not inconsistent with the reasonable protection of the interests of the United States under the guarantee.

Managerial changes.

(b) If the Board determines that the inability of an enterprise to obtain credit without a guarantee under this Act is the result of a failure on the part of management to exercise reasonable business prudence in the conduct of the affairs of the enterprise, the Board shall require before guaranteeing any loan to the enterprise that the enterprise make such management changes as the Board deems necessary to give the enterprise a sound managerial base.

Financial statement.

(c) A guarantee of a loan to any enterprise shall not be made under this Act unless—

(1) the Board has received an audited financial statement of the enterprise; and

(2) the enterprise permits the Board to have the same access to its books and other documents as the Board would have under section 7 in the event the loan is guaranteed.

(d) No payment shall be made or become due under a guarantee entered into under this Act unless the lender has exhausted any remedies which it may have under the guarantee agreement.

Protective provisions.

85 STAT. 179

85 STAT. 180

(e)(1) Prior to making any guarantee under this Act, the Board shall satisfy itself that the underlying loan agreement on which the guarantee is sought contains all the affirmative and negative covenants and other protective provisions which are usual and customary in loan agreements of a similar kind, including previous loan agreements between the lender and the borrower, and that it cannot be amended, or any provisions waived, without the Board's prior consent.

Advances.

(2) On each occasion when the borrower seeks an advance under the loan agreement, the guarantee authorized by this Act shall be in force as to the funds advanced only if—

(A) the lender gives the Board at least ten days' notice in writing of its intent to provide the borrower with funds pursuant to the loan agreement:

(B) the lender certifies to the Board before an advance is made that, as of the date of the notice provided for in subparagraph (A), the borrower is not in default under the loan agreement: *Provided*, That if a default has occurred the lender shall report the facts and circumstances relating thereto to the Board and the Board may expressly and in writing waive such default in any case where it determines that such waiver is not inconsistent with the reasonable protection of the interests of the United States under the guarantee; and

(C) the borrower provides the Board with a plan setting forth the expenditures for which the advance will be used and the period during which the expenditures will be made, and, upon the expiration of such periods, reports to the Board any instances in which amounts advanced have not been expended in accordance with the plan.

(f)(1) A guarantee agreement made under this Act shall contain a requirement that as between the Board and the lender, the Board shall have a priority with respect to, and to the extent of, the lender's interest in any collateral securing the loan and any earlier outstanding loans. The Board shall take all steps necessary to assure such priority against any other persons. Loan security, priority.

(2) As used in paragraph (1) of this subsection, the term "collateral" includes all assets pledged under loan agreements and, if appropriate in the opinion of the Board, all sums of the borrower on deposit with the lender and subject to offset under section 68 of the Bankruptcy Act. "Collateral." 52 Stat. 878. 11 USC 108.

INSPECTION OF DOCUMENTS; AUTHORITY TO DISAPPROVE CERTAIN TRANSACTIONS

SEC. 7. (a) The Board is authorized to inspect and copy all accounts, books, records, memoranda, correspondence, and other documents of any enterprise which has received financial assistance under this Act concerning any matter which may bear upon (1) the ability of such enterprise to repay the loan within the time fixed therefor; (2) the interests of the United States in the property of such enterprise; and (3) the assurance that there is reasonable protection to the United States. The Board is authorized to disapprove any transaction of such enterprise involving the disposition of its assets which may affect the repayment of a loan that has been guaranteed pursuant to the provisions of this Act.

(b) The General Accounting Office shall make a detailed audit of all accounts, books, records, and transactions of any borrower with respect to which an application for a loan guarantee is made under this Act. The General Accounting Office shall report the results of such audit to the Board and to the Congress. GAO audit. Report to Board and Congress.

85 STAT. 180
85 STAT. 181

MAXIMUM OBLIGATION

SEC. 8. The maximum obligation of the Board under all outstanding loans guaranteed by it shall not exceed at any time $250,000,000.

EMERGENCY LOAN GUARANTEE FUND

SEC. 9. (a) There is established in the Treasury an emergency loan guarantee fund to be administered by the Board. The fund shall be used for the payment of the expenses of the Board and for the purpose of fulfilling the Board's obligations under this Act. Moneys in the fund not needed for current operations may be invested in direct obligations of, or obligations that are fully guaranteed as to principal and interest by, the United States or any agency thereof. Establishment; use.

(b) The Board shall prescribe and collect a guarantee fee in connection with each loan guaranteed by it under this Act. Sums realized from such fees shall be deposited in the emergency loan guarantee fund. Guarantee fee.

Payments.

(c) Payments required to be made as a consequence of any guarantee by the Board shall be made from the emergency loan guarantee fund. In the event that moneys in the fund are insufficient to make such payments, in order to discharge its responsibilities, the Board is authorized to issue to the Secretary of the Treasury notes or other obligations in such forms and denominations, bearing such maturities, and subject to such terms and conditions as may be prescribed by the Board with the approval of the Secretary of the Treasury. Such notes or other obligations shall bear interest at a rate determined by the Secretary of the Treasury, taking into consideration the current average market yield on outstanding marketable obligations of the United States of comparable maturities during the month preceding the issuance of the notes or other obligations. The Secretary of the Treasury is authorized and directed to purchase any notes and other obligations issued hereunder and for that purpose he is authorized to use as a public debt transaction the proceeds from the sale of any securities issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under that Act are extended to include any purchase of such notes and obligations.

40 Stat. 288.
31 USC 774.

FEDERAL RESERVE BANKS AS FISCAL AGENTS

SEC. 10. Any Federal Reserve bank which is requested to do so shall act as fiscal agent for the Board. Each such fiscal agent shall be reimbursed by the Board for all expenses and losses incurred by it in acting as agent on behalf of the Board.

PROTECTION OF GOVERNMENT'S INTEREST

Attorney General, enforcement authority.

SEC. 11. (a) The Attorney General shall take such action as may be appropriate to enforce any right accruing to the United States or any officer or agency thereof as a result of the issuance of guarantees under this Act. Any sums recovered pursuant to this section shall be paid into the emergency loan guarantee fund.

Recovery rights.

(b) The Board shall be entitled to recover from the borrower, or any other person liable therefor, the amount of any payments made pursuant to any guarantee agreement entered into under this Act, and upon making any such payment, the Board shall be subrogated to all the rights of the recipient thereof.

85 STAT. 181

85 STAT. 182

REPORTS

Reports to Congress.
Recommendations.

SEC. 12. The Board shall submit to the Congress annually a full report of its operations under this Act. In addition, the Board shall submit to the Congress a special report not later than June 30, 1973, which shall include a full report of the Board's operations together with its recommendations with respect to the need to continue the guarantee program beyond the termination date specified in section 13. If the Board recommends that the program should be continued beyond such termination date, it shall state its recommendations with respect to the appropriate board, agency, or corporation which should administer the program.

TERMINATION

SEC. 13. The authority of the Board to enter into any guarantee or to make any commitment to guarantee under this Act terminates on December 31, 1973. Such termination does not affect the carrying out of any contract, guarantee, commitment, or other obligation entered into pursuant to this Act prior to that date, or the taking of any action necessary to preserve or protect the interests of the United States in any amounts advanced or paid out in carrying on operations under this Act.

Approved August 9, 1971.

LEGISLATIVE HISTORY:

HOUSE REPORT No. 92-379 (Comm. on Banking and Currency).
SENATE REPORT No. 92-270 accompanying S. 2308 (Comm. on Banking, Housing, and Urban Affairs).
CONGRESSIONAL RECORD, Vol. 117 (1971):
July 30, considered and passed House.
July 21-24, 26-31, Aug. 2, considered and passed Senate, in lieu of S. 2308.

APPENDIX B

Participating Banks and Percentage of Participation in the 1971 Credit Agreement

Specified Percentage	*Name of Bank*
7.5%	Bank of America National Trust and Savings Association
7.5%	Bankers Trust Company
7.5%	The Chase Manhattan Bank
7.5%	First National City Bank
7.5%	Manufacturers Hanover Trust Company
7.5%	Morgan Guaranty Trust Company of New York
7.5%	Security Pacific National Bank
5.75%	Continental Illinois National Bank and Trust Company of Chicago
5.75%	Mellon National Bank and Trust Company
5%	Chemical Bank
5%	United California Bank
3.75%	Crocker National Bank
3.75%	The First National Bank of Boston
3.75%	The First National Bank of Chicago
3.75%	Irving Trust Company
3.75%	Wells Fargo Bank National Association
2%	Girard Trust Bank
2%	The Philadelphia National Bank
1.25%	The Bank of California National Association
.5%	The Citizens and Southern National Bank
.5%	The First National Bank of Atlanta
.5%	Trust Company of Georgia
.25%	The Fulton National Bank of Atlanta
.25%	The Pacific National Bank of Washington

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FOR IMMEDIATE RELEASE

PRESS CONFERENCE BY SECRETARY GEORGE P. SHULTZ
AT THE CONCLUSION OF THE C-20 MINISTERIAL MEETING
AT THE KENYATTA CONFERENCE CENTER, NAIROBI
SEPTEMBER 23, 1973

There are a few main points coming out of this (Committee of Twenty Ministerial) Meeting and I would like to summarize them in a form that gives our interpretation of what they mean.

I would say, first of all that while there was a great deal of impatience and some disappointment expressed at the outcome of the Deputies Meeting in Paris, nevertheless it was apparent that there had been progress enough and evidence of political will enough so that the Committee felt it appropriate and possible to set a deadline for completing this task by the end of July 1974.

Now, so far as we can see, that obviously calls for an accelerated work program by the Deputies, and working groups are specified for that. It involves an accelerated work program for the Ministers, and so we would look toward a meeting in January and in the late Spring, perhaps June, depending on what seems appropriate. I believe it is fair to say from the statements and suggestions made by many at the meeting that they certainly would expect to have the opportunity of meeting with various ministers of our leading trading partners in between these meetings. I would expect--and I imagine the other Ministers would also expect to spend a considerable portion of their time working on this matter and make it a matter of top priority. So I think that in terms of the outcome of the meeting it is, in a sense, procedural rather than substantive, since there was no substantive matter that could really have been dealt with at this meeting. But the implications of the procedural decision, I think, are strong.

In terms of the substance, as I would interpret the situation, we have a Bureau draft that will be distributed in due course which gives the Bureau's view of where we are and summarizes differences and points of agreement. We do not necessarily agree on precisely everything in that document but we regard it as something to take note of and it does provide clarification on many issues. We would expect in the next Ministers Meeting to move on topically, particularly to the complicated and difficult issues involving the SDR and its characteristics and some of the associated matters. We would expect the Deputies to be working hard on the operational implications of various main alternatives on the adjustment process and convertibility so that when we come back to those subjects, the political will (which was so evident in July in Washington) can be exercised in a truly informed and careful way. I think that summarizes our impressions from this meeting.

Q. Mr. Shultz, you noted that there was political will evident in July. I have the impression that it is somewhat lacking now. Do you agree with that?

A. No, I don't think so at all. I think that if there had not been a feeling that this group should try to do this job, people would not have been willing to pin themselves down to a deadline. Now I emphasize the deadline in exhibiting that fact. At the same time I would expect that we will round up much of the work well before the deadline, and not wait. It should not be one of those last-minute things where you decide on midnight of July 31, whatever day of the week that happens to be.

Q. Mr. Secretary, how long after that would it take for you to have a monetary system actually functioning?

A. Well that was not pinned down-and I think it is hard to pin it down-because once there is agreement on basic principles and their sort of operating characteristics, at that point the lawyers have to be invited in to work with us and converting it into articles of agreement. I don't believe anyone has tried to estimate how long that process will take. But it certainly at that stage should not take forever. It would be a question of whether or not it could be done by the time of the Annual Meeting, I would hope we would try to get it done then but the Chairman did not make any commitment on that point.

Q. It would take another year after that for ratification?

A. Certainly, any agreement reached would have to go back to legislatures in most cases. Certainly in our case in the U.S., we would take any agreement back to our Congress, they would have to give their blessing.

Q. After July, could any part of this be put into effect or applied on an interim basis?

A. Yes, I think probably. I am inclined to think that if we see the over all shape of things it ought to be possible to implement -- we certainly would want to implement whatever we can of the total. What that would be, exactly, I don't know. But we should have that attitude and one of the Ministers made a special point of that -- Mr. Turner of Canada.

Q. Mr. Shultz, did the initiative for the deadline come from the U.S.? It sounds like the sort of thing the Europeans tend to do for themselves in the ECC and does often lead to all night final sessions.

A. Well, we would not be looking to all night final sessions. I believe the suggestion was made by the Chairman. I don't recall exactly who said what at the meeting. But he put forward this notion. And the notion of a January meeting and one in the late Spring. It got commented on around the room by various people but essentially I think it originated with him.

Q. How firm do you think the July 31st deadline really is? Could it slip come next Spring if you were not very close on the major issues?

A. Well, it sounds like an unambiguous type of deadline. We could have said by mid-summer and that would have given losts of scope for moving around. But July 31st--you can pin us down on that.

Q. What agreement do you see emerging between yourself and the European community, because there have been problems there?

A. The meeting today didn't really make an effort to go into detailed problems and see what substantively could be worked out, but rather took note of the work that had been done and the status of it, focused on these procedural matters. I think the question is, how do you interpret the procedural decisions--what do they mean for people's sense of what can be done and should be done of the substantive questions?

Q. What will the Deputies be doing for the rest of the week? Will there be meetings?

A. Well, they are going to have a meeting on Thursday. They will have to lay out at that meeting the lines of work. I presume of the working groups primarily--and set their own method of operations. But I think, in a sense, a sign of progre is the general assent that we simply have to construct small groups to work on problems and bring them back to the general body. As we all know when it comes to the painstaking work involved, you can't do it in a gigantic meeting. It has to be done in smaller groups and brought back to the general meeting.

Q. Inaudible.

A. Well, July 31st is less than a year away--and I expressed the hope that we wouldn't wait, although I, as an old collective bargainer, I recognize the midnight proclivities of bargainers. While much of this gets set in peoples minds as a question of bargaining--for the most part it isn't so much that.

Everybody wants a system that will work, that will bring about reasonable equilibrium and operate in a symmetrical way--use the SDR as the basic numeraire and so on. There is an awful lot of agreement when you go back and try to add it up over the past year, so there is a good deal to build on. But I would hope we could approach it, at first always in part as a matter of negotiation, but primarily as a matter of trying to design a system that will work for everybody. While international economic matters are often thought of as contentious because people do argue about them a lot, we always have to remind ourselves of the reason why there is a monetary system. The reason people are interested in trade and so on is that everybody gains from it. So it is not a zero sum game where for everybody who wins so much somebody else loses the same amount. It is an operation in which everybody has a great positive stake together.

Q. Do you think that this implies that nothing of substance will be accomplished at this overall meeting?

A. Well, I think that the substantive discussions of the Ministers have been completed now, as far as the C-20 is concerned. There is no prospect of the group gathering again to get into a real extended discussion on this subject. This Annual Meeting is not the best setting. So much else is going on, and there is a great deal of distraction, and one needs to really concentrate on this subject by it self.

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7,331 Lowest since

June 25, 1973 7,228

Last Week 8,786

182

7,661 Lowest since

June 25, 1973 7,299

Last Week 8,832

At

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FOR RELEASE 6:30 P.M. September 24, 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 27, 1973, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing December 27, 1973		:	26-week bills maturing March 28, 1974	
	Price	Equivalent annual rate	:	Price	Equivalent annual rate
High	98.167	7.251%	:	96.147	7.621%
Low	98.141	7.354%	:	96.123	7.669%
Average	98.147	7.331% 1/	:	96.127	7.661% 1/

Tenders at the low price for the 13-week bills were allotted 36%.
Tenders at the low price for the 26-week bills were allotted 100%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 32,110,000	$ 21,315,000	:	$ 23,325,000	$ 13,325,000
New York	3,392,660,000	2,079,965,000	:	3,307,605,000	1,264,585,000
Philadelphia	22,460,000	22,260,000	:	37,805,000	10,940,000
Cleveland	39,710,000	36,855,000	:	30,985,000	20,750,000
Richmond	30,635,000	19,635,000	:	19,985,000	14,985,000
Atlanta	22,115,000	18,015,000	:	20,780,000	16,015,000
Chicago	286,700,000	115,475,000	:	331,210,000	27,795,000
St. Louis	48,250,000	31,750,000	:	50,900,000	22,000,000
Minneapolis	46,760,000	18,200,000	:	40,805,000	2,805,000
Kansas City	38,640,000	29,785,000	:	30,540,000	21,440,000
Dallas	43,740,000	17,240,000	:	44,685,000	11,985,000
San Francisco	130,040,000	89,850,000	:	448,460,000	374,405,000
TOTALS	$4,133,820,000	$2,500,345,000 a/		$4,387,085,000	$1,801,030,000 b/

a/ Includes $340,670,000 noncompetitive tenders accepted at the average price.
b/ Includes $219,960,000 noncompetitive tenders accepted at the average price.
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 7.57% for the 13-week bills, and 8.08% for the 26-week bills.

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FOR IMMEDIATE RELEASE

STATEMENT BY SECRETARY OF THE TREASURY GEORGE P. SHULTZ
AT THE IMF/IBRD ANNUAL MEETING
NAIROBI, KENYA
TUESDAY, SEPTEMBER 25, 1973

Nairobi has been a happy choice for this Annual Meeting. For many of us, the prospect of visiting Kenya and seeing some of its natural splendor provided a special sense of anticipation. Upon arrival, we found these striking and efficient facilities in the setting of a city that epitomizes the rapid progress that independent, self-reliant and energetic people can make when they have the tools with which to work. I particularly appreciate President Kenyatta's warm words of welcome and his challenge to us all.

Less than two weeks ago in Tokyo, most of the nations here represented pledged themselves to a thorough review of our trading practices and rules. This week, we can provide the necessary impetus to complete our work in reshaping our international monetary arrangements. Here in Nairobi -- on a continent where vast potential often contrasts starkly with human poverty-- we also come face to face with the challenge of economic development.

Trade, money, development -- each of these is a large task. Any one of them, it might be said, would be enough for us to deal with alone. Yet, in a larger sense, we are fortunate that the pressure of events forces us to deal with them together. They are related, not by any artificial or self-imposed negotiating calendar, but by reality. It is right to keep in mind that delay in one area could undermine progress in another. It is equally right -- and a better omen -- that success in one area will support and encourage good results in the others.

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These fundamental interrelationships were plainly recognized in the mandate given the Committee of 20 on monetary reform a year ago. They were recognized in the Tokyo Declaration of Trade adopted by GATT earlier this month. Let us keep them in mind in all our work in Nairobi and beyond, and emphasize the mutually reinforcing benefits of success in each field.

MONETARY REFORM

Our monetary discussions are now well advanced, owing in no small part to the patient and effective efforts of Mr. Wardhana and Mr. Morse. We take satisfaction in the extent to which a basic convergence of views on the broad framework of a new system has emerged.

-- We all seek a substantial strengthening of the processes of international adjustment through a blending of objective criteria and international judgment, with the recognition of the need for symmetrical and even-handed pressures on both surplus and deficit countries.

-- There is full acceptance of the idea that the center of gravity of the exchange rate system will be a regime of "stable but adjustable par values," with adequately wide margins and with floating "in particular situations."

-- We anticipate a general system of convertibility to support the regime of par values, with a modified SDR as the central reserve asset, and de-emphasis of the roles of gold and reserve currencies.

-- There is a common will to explore the complex technical requirements for multi-currency intervention and to find mutually satisfactory terms for consolidating or funding outstanding balances of reserve currencies.

At the same time, my sense of satisfaction is tempered. Issues of critical importance -- carefully outlined in the report submitted to us by Mr. Wardhana -- remain unresolved. No doubt we could each expound at length views on particular aspects of these issues. However, I believe those issues will be resolved as national governments are able to appraise more thoroughly the operational aspects of different approaches toward adjustment pressures, toward convertibility, and toward the definition and valuation of reserve assets. Moreover, we need to consider answers to each of those questions in the full context of answers to the others.

In constructing a world monetary system, we cannot act, as I see it, like merchants in a bazaar bargaining for selfish advantage. Nor should we be concerned out of pride or politics

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with patching together and compromising components from every national position. All our success depends upon achieving a coherent, workable whole that fairly serves the common interests.

With good will and intensive technical work, the ground can be fully prepared for a comprehensive agreement as soon as next Spring. That agreement will then need to be translated into an extensive and detailed rewriting of the IMF Articles of Agreement. It is wrong to aim to approve those new Articles, for submissions to our legislatures, at our next Annual Meeting?

THE TRANSITIONAL PERIOD

We are all conscious of the stresses in exchange markets arising from time to time during this transitional period. Yet, in broad terms, the substantial exchange rate changes of the past two years -- although in some instances clearly exaggerated by speculation and uncertainty -- have provided powerful and needed impetus toward correcting persistent structural imbalances.

In the case of the United States, the alarming erosion in our trade position has by now been decisively reversed. In contrast to a deficit of more than $6 1/2 billion in 1972, we should be close to balance in 1973. While an extraordinary surge in agricultural exports has greatly speeded the turn-around, our trade position in manufactured goods has also been improving, even in the face of high domestic demand.

We are also beginning to see welcome evidence that both American and foreign firms are reappraising their investment programs, with more emphasis on U.S. production. Thus, shifts in capital flows should reinforce the favorable effects on our payments of the swing in our trade position. In these circumstances, surpluses in both our trade and basic payments position now appear in sight for next year. Such surpluses for a period seem to me indispensable for full restoration of confidence, for encouraging a reflow of dollars to the United States, and for implementing any lasting monetary reform.

Our contacts with traders, investors, and businessmen suggest they have acclimated themselves reasonably well to the present monetary environment, despite more instability in exchange markets from day to day than they or we like to see. Propelled by boom conditions, world trade is, if anything, expanding even faster than in most earlier years.

It would be a fundamental error, however, to mistake present arrangements for monetary reform. Habits of cooperation and the exercise of good sense have carried us over the rough spots. But what is lacking--and what I believe to be the essence of any lasting monetary system--is a deep sense of commitment on an agreed code of international conduct to help guide us when the actions of one nation impinge on those of another.

ISSUES LEFT OPEN

In one way or another, most of the issues left open in Chairman Wardhana's report deal with delicate and sensitive questions arising out of the inherent tensions between the responsibilities of national governments to meet their domestic priorities and our common commitment to a mutually beneficial international order. We firmly believe these tensions can be constructively resolved, for in the end a well-functioning international system should contribute to the growth and stability of the individual countries operating within that system.

The challenge is to translate that concept into operating reality. To do so will require a commitment to some basic rules established in advance and seen as equitable to all. We must provide for necessary international review and surveillance. Not least, we must permit necessary scope for national decision-making.

In seeking an appropriate balance among these components of a new system, we have emphasized the role that quantitative indicators--and in particular reserve indicators--could play in helping discipline the adjustment process in an even-handed, effective, and politically acceptable manner. I therefore welcome the prospect that in the months immediately ahead, a common effort will be made to appraise and test the operational feasibility of that approach, alongside related questions of the operation of the convertibility provisions in the new system.

At the same time, I believe it is common ground among us that effective processes of international consultation and decision-making are critical to the operation of the new system. I have been encouraged by the widespread recognition of the need to equip the IMF to play its full role at the center of the system. The logic is strong that, for the Fund to act effectively, member governments should have available a forum of workable size within the organization at which responsible national officials can speak and negotiate with both flexibility and authority. Conversely, we should be sure that the deliberations and concerns of the international community are fully and directly reflected in the internal councils of member governments.

These objectives could be fostered by keeping in being a streamlined Committee of 20, able to review periodically or in emergencies larger issues with a significant impact on the monetary situation as a whole. Plainly, there will also be a need to retain a body along the lines of the present and highly competent executive board, with resident members and the knowledge and insight that comes only with intimate day-to-day contact with operations and emerging problems.

In the effort to resolve finally these difficult substantive and organizational questions, I particularly look forward to the participation and fresh insights of our new Managing Director, Mr. Witteveen. He brings to us rich and varied experience as a professional economist and a practicing politician--precisely the disciplines that must be blended in all our work.

DEVELOPMENT

The day has long passed -- and rightly so -- when discussions of trade and monetary issues could take place primarily in a relatively closed circle of industralized countries. We must consider with great care what special arrangements within the trading and monetary systems may be appropriate to help meet development needs more effectively.

In presenting broad trade legislation to our Congress, we incorporated the concept of assisting development by means of generalized preferences, to be granted on a non-reciprocal basis. This approach, undertaken in concert with comparable efforts by other industrialized countries, is consistent with the broad thrust of our mutual effort to reduce barriers to trade and to encourage economic development. We look forward to early passage of this legislation.

We support the idea of freeing flows of capital to developing countries and exempting where possible those countries from controls imposed for balance of payments purposes.

Closer examination should be given to methods of providing credit through our international institutions better tailored to the needs of developing countries experiencing extended periods of difficulty.

Our judgment concerning the value of another proposal has, as is well known, been different. We feel the so-called SDR-aid link would in practice serve well neither monetary stability nor economic development. Experience strongly demonstrates the wisdom of keeping separate the function of money creation -- which is what the SDR is all about -- and the essentially political decision of resource transfer and redistribution.

LARGER STAKES

As we deal with these specific issues, let us never lose sight of the much larger stake that developing countries -- as all of us -- have in a well functioning, stable monetary system and an open trading order. Mr. McNamara has already pointed to the cost to poorer countries of burdens on their exports in the markets of industrialized nations. Long delays and sharp exchange rate adjustments among their more affluent trading partners, responding to imbalances that were permitted to build up over a period of years, have complicated the financial management of developing countries.

At the same time, a number of countries still classified as developing are reaching a stage of industrialization where they can, in the mutual interest, accept their fair share of the responsibilities for a world order. Controls, subsidies, and other impediments to open trade that might have been justified in an earlier stage of development need to be reviewed and eliminated. The disciplines of balance of payments adjustment -- whether to correct deficits or surpluses -- need to be observed and this can be done without sacrificing developmental objectives. Indeed, I believe there are longer term dangers to the kind of open, one-world economy we would like to see in casually proliferating arrangements that would divide the world sharply into distinct groupings of "have" and "have not" nations.

In the short run, the prosperity of developing countries is tied to the prosperity of the industrialized world. In the past two years, relatively high prices for agricultural products and raw materials have directly benefited many. When the labor forces of industrialized economies are fully employed, resistance to imports of labor intensive products declines, to the benefit of producer and consumer alike.

While uneven country-by-country, the overall results are apparent in the recent growth of production and monetary reserves of the developing world. Excluding the main oil producers, developing countries had a surplus of over $4 1/2 billion in 1972, and their surpluses appear to have been well maintained this year.

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LONG-TERM DEVELOPMENT AND OFFICIAL ASSISTANCE

A cyclical surge is, of course, no substitute for sustained development over a long period of years. In the end, development will succeed or fail as the result of the efforts of the millions of people in the developing countries themselves -- working under the direction and leadership of their own governments. Compared to the human and material resources of even the poorest country, the effects of external assistance are bound to be modest. Indeed, all the official assistance of all the donor countries of the western world amounts to less than 2 percent of the GNP of developing countries.

Effectively used, however, the margin of resources from abroad can be a catalyst -- in some instances an essential catalyst -- to the development process. I speak of this potential as seen from the particular vantage point of a country whose people and government have had experience in the provision of assistance in amounts, and over a period of time, without parallel in history, even today, when others have moved to help pick up the burden, the United States provides almost 40 percent of official development assistance from the OECD countries, and it is by far the largest source of private capital as well.

This commitment has been a natural one, for we are a large and relatively rich country, unusually blessed with resources, political stability, and a productive population. We accept today, as we have in the past, the simple premise that no nation -- whether the motives are properly considered those of common humanity or enlightened self-interest -- can be oblivious to the conditions in which other men and women are living.

Out of this long experience, we have reached certain conclusions and raised certain questions that I want to convey to you today. The questions are no doubt sharpened by the searching look at priorities evoked by long years of an agonizing war and by the evident strains on our external position. Like every other country represented in this room, we face hard decisions about economic and social priorities in many areas.

The strongest of our convictions is that aid stimulates development only where there exists the will and competence to utilize it effectively. This implies a responsibility upon the donor as well as the recipient to identify, develop and carry through projects of strategic developmental importance. The World Bank group and its sister regional financing institutions rightly pride themselves as leaders in efficient project planning and execution, and in assessment of those projects as part of a larger development effort. This is not a matter of dramatic, new initiatives, but hard, persistent effort. We are particularly gratified that the World Bank group is moving to reinforce its effectiveness by further strengthening post-audit performance evaluation, independent of those responsible for project execution.

Second, there is a growing need to place more emphasis on what might be called "people-oriented" projects rather than large-scale civil engineering. We have redirected the emphasis in our own bilateral assistance in support of imaginative, new programs in education, agriculture and population planning. We warmly support the initiatives the World Bank has taken in these same areas. The fresh emphasis that Mr. McNamara placed on rural development, in his remarks to us yesterday, seems to us entirely appropriate.

Third, and most broadly, a genuine commitment on the part of recipient countries to the idea of development in their own policies is a key ingredient. Experience shows, time and again, that "growth-oriented" countries rapidly become less dependent on official assistance once internal conditions are right.

There is one aspect of "growth-orientation" -- the part played by private investment -- that I wish to emphasize, sensitive though it may be.

In sheer quantitative terms, the potential is clear enough -- net flows of medium and long-term private capital to developing countries are now as large as official assistance. Moreover, the private investor can bring benefits in skills and experience that simply have no counterpart in governmental aid.

Every sovereign nation has, of course, the right to regulate terms and conditions under which private investment is admitted, or to reject it entirely. However, when such capital is rejected, we find it difficult to understand that official donors should be asked to fill the gap. Moreover, we do not find it reasonable that a nation taking confiscatory steps toward investment that it has already accepted from abroad should anticipate official assistance, bilateral or multilateral.

IDA REPLENISHMENT

Mr. McNamara has outlined an ambitious program for the next five years. We are in a large measure of agreement with the objectives of that program and we give them our support. We also appreciate that a consensus has been reached that the traditional share of the United States in IDA financing should be dropped from 40 percent to one-third, and the shares of Japan, Germany and others increased, to more accurately reflect the present distribution of economic strength.

On this basis, the U. S. administration will consult with, and strongly recommend to the Congress our participation in a total fourth replenishment for IDA of $4.5 billion. In doing so, I must emphasize that many questions about this program -- including those I have discussed with you -- are on the minds of the members of Congress. The large and distinguished delegation from the Congress that has accompanied me to Nairobi and visited a variety of World Bank projects in Africa is evidence that they are interested in finding constructive answers to these questions.

I cannot say with any certainty how long our consultative and legislative process will take or certify its outcome. We do fully recognize that necessary legislative procedures differ among countries, and that timetables are pressing. We will, therefore, remain in close touch with the management and the Executive Board of the Bank during this process.

INFLATION

Before concluding, I must underscore the threat to all our constructive labor from the storm of worldwide inflation.

Unfortunately, inflation is no new phenomenon. What is new is that it is now infecting more countries, in a greater degree, than at any time in memory. Speculation in commodities is fed by fear about currencies. Inflation is becoming imbedded in the expectations of too many people. Long maintained, this will break down the processes of orderly development. It is simply incompatible with the stability of any international monetary and trading system.

I am familiar with analyses that trace world inflation to defects in the international monetary system. The Bretton Woods system has, itself, been criticized as an engine of inflation, and floating rates praised as permitting the restoration of internal monetary discipline. Equally forcibly, we are urged -- especially by those who have seen their own exchange rates depreciate and their import bill rise -- that floating rates are themselves an inflationary force.

Whatever the technical merits of these analyses in particular circumstances, I submit they place the responsibility for inflation and its correction in the wrong place. Let us not neglect the causes and cures that lie closer to our national actions and powers.

Two factors, mainly unforeseen a year ago, have been at work in the recent surge of inflation. The first is that strong expansionary forces have coincided among virtually all industrialized and developing countries. As a result, increases in cyclical demand have put pressures on supply, exposed unforeseen shortages of capacity, and driven up prices of raw materials. Second, the pressures on prices in two key areas -- agriculture and energy -- have been greatly aggravated by crop failures in weather, and by shifts in production patterns and marketing policies.

In the United States, we have long been accustomed to relatively low prices of basic agricultural commodities. For many years, without adequate markets abroad, we kept a sizeable margin of farm resources idle. But, in the past crop year, the volume of our wheat exports nearly doubled, feed grain exports rose by two-thirds, and soybeans by one-sixth. And now, with our markets fully open to the surge in world demand, looked to as a residual supplier when other countries are short, and without the price protection afforded those whose exchange rates have appreciated, we have felt the full brunt of the rise in world agricultural prices.

At the same time, our needs for energy imports are rising rapidly. Obviously, these commodity flows in both directions have responded to pressing needs. But the price impact is measured by the fact that, taken together, prices of food and energy account for 82 percent of the rise in our wholesale price index and 66 percent of the rise in our consumer price index in the past year.

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We believe a market-oriented system will respond flexibly and effectively to changing needs. We are making great efforts to deal with the high price of food by bringing idle acreage back into production. Normal market processes are at work. The prices of soybeans are 50 percent below their speculative peak, feed grains have fallen back by a quarter, and wheat prices -- where the worldwide supply situation is most tenuous -- have at least stopped rising.

We cannot speed the natural cycle of planting and harvesting, and of animal growth. We face for a considerable period ahead a tight situation in agricultural markets. But we have every intention of keeping our markets open, for we are and intend to be a dependable supplier.

Meanwhile, this experience will ultimately redound to our common advantage if we attack with fresh urgency the problem of finding more effective patterns of production and trade to serve our mutual interest in more food at cheaper prices.

Let us work in similar spirit to deal with the problem of developing and distributing energy resources.

We for our side, have now embarked upon a massive effort to develop the bountiful energy sources within our own country now made economic by higher prices. We look to others to help maintain the flow of energy, so long as their own legitimate needs and aspirations are fairly recognized.

A vigorous attack on the special problems of food and energy are not a cure-all for inflation. A number of countries, as ourselves, have resorted to, and even intensified, direct price and wage controls. But we remain convinced that our success will hinge mainly on the firm and persistent application of the traditional tools of fiscal-monetary restraint. I need not belabor, to an audience of finance ministers and central bankers, that expenditure and monetary restraint are never popular. Nevertheless, I believe, in the face of the evident need, these policies are broadly accepted by the American people. We mean to see it through. We hope and expect our efforts will be mutually reinforcing with those of others.

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

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FOR RELEASE AT 9:30 A.M.,
TUESDAY, SEPTEMBER 25, 1973

REMARKS OF THE HONORABLE EDGAR R. FIEDLER
ASSISTANT SECRETARY OF THE TREASURY FOR ECONOMIC POLICY
BEFORE THE CONFERENCE BOARD'S
"BUSINESS IN 1974" CONFERENCE
NEW YORK, N. Y.
SEPTEMBER 25, 1973

PRICES, COSTS AND CONTROLS

The explosion of price inflation in 1973 has rocked the American economic boat in a most profound way. Economists everywhere entered the year with almost a sanguine outlook about inflation. None foresaw the traumatic experience that has taken place these past months.

And it has been a traumatic experience. Five-dollar wheat, a second price freeze, a beef shortage, export controls, and gasoline station closings all attest dramatically to the psychic shock suffered by the American public in 1973. The people are so confused by these events that in July a public-opinion poll registered the dominant belief of Americans to be that the economy is in a recession. Another interesting result from the national polls was a July sampling that showed a 76-16 margin in favor of rolling back food prices and then freezing them, followed by an August sampling that showed, by a 54-32 margin, a belief that putting controls on beef prices creates a shortage.

Nature of This Inflation

Our inflation problem is very complex. There is no single dominant reason for the present inflation, nor is there any simple solution to it.

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There is, however, one way in which the 1973 experience has been drastically different from the inflation that we have had, off and on, over the past two decades. To an extraordinary degree, the recent inflation has been a commodity inflation. It has been concentrated in farm and food products and in industrial raw materials to a degree that we have not seen since the early 1950's.

To a considerable extent, then, the acceleration of inflation that took place in 1973 can be explained very simply, by just two factors. Factor number one is the reduced output of agricultural products around the world. Global cereal production fell a disastrous 4 percent from 1971 to 1972. Wet weather hurt the soybean harvest in the United States at the same time that the Peruvian anchovys disappeared. Similar supply short-falls hit cotton and other farm commodities. Together, these difficulties created unprecedented pressures on farm and food prices.

Factor number two is the strong economic boom that is taking place simultaneously in virtually every industrialized country in the world. Perhaps never before have so many countries experienced such rapid growth in output at the same time. The inevitable result is a supply-demand imbalance in all major industrial raw materials and an unprecedented burst of price increases.

To see how completely farm and raw-material commodities have dominated our recent inflation, it is necessary only to examine the composition of the wholesale price index. Virtually every commodity with the fastest price increases over the past year is in one of these two categories (see Table 1). Further, virtually every one is either traded in international markets or is closely related to a commodity that is.

Another measure of the concentration of our recent inflation in commodities is the fact that more than two-thirds of the rise in consumer prices since the beginning of 1973 has been accounted for by food and petroleum products alone. Leaving those two sectors aside, consumer prices have increased at an annual rate of 3.6 percent during 1973, very similar to the general experience in 1972.

An additional piece of evidence to support the thesis that the acceleration of inflation has been in commodities and not elsewhere is the recent behavior of wages. Over the past couple

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of decades, whenever price inflation reared its ugly head, wage inflation was very much a part of the picture. But this time, not so; wage increases have not accelerated in 1973. Over the past twelve months, the adjusted index of average hourly earnings has increased at about a 6 1/2 percent rate, and thus far in 1973, wage and benefit settlements in major collective bargaining situations have on average provided for increases of about 6 percent annually. Both of these statistics are within close range of the general wage standard of the stabilization program and close to the 1972 performance.

Economic Policy

I do not want to carry this distinction between a commodity inflation and a more general inflation too far. To do so would soon show the distinction to be partly artificial; in particular, I do not want to imply that never the twain shall meet. But there is a certain analytical validity to the distinction, both in explaining what has gone on and in deciding what economic policy responses should be taken.

Recently, the most common criticism of fiscal and monetary policies is that they have been irresponsibly undisciplined and are therefore responsible for the 1973 explosion of inflation. That is a troublesome point of view, I feel, because it is difficult to see how a tighter policy stance either in the Budget or by the Federal Reserve could have dealt effectively with crop failures or foreign oil cartels or economic booms abroad.

It is also difficult to see the reason for more restrictive policies when unemployment is at 4.8 percent and wage settlements are not accelerating. It is reasonable to argue that 4.8 percent unemployment is close to or even in the zone of full employment. It is, however, quite another thing to say that a jobless rate of 4.8 percent is overfull employment and must be raised to fight inflation.

Given the nature of the current inflation and the level and movement of unemployment, the economic policy posture of the past couple of years has been broadly appropriate. A few of the relevant statistics are shown in Table 2. While some questions might be raised -- at the margin in my view -- about the timing and degree of policy shifts in recent years, there is no argument about direction. As the economy strengthened and unemployment declined in 1972 and 1973, fiscal and monetary policies were shifted appropriately: stimulus was gradually withdrawn and supplanted by restraint.

Fighting Commodity Inflation

To supplement the general policy moves, the Administration undertook a series of major actions designed to increase supplies of food and other commodities that are in short supply. In particular, farm policy was completely turned around. For thirty years the strategy had been to restrict production to raise farm prices to raise farm income. Today the policy is to increase output to the maximum extent possible.

Criticisms have been levelled at the speed with which this 180-degree change in farm policy was achieved. But to me (after several years of close observation of the responsiveness of the Federal bureaucracy) what is impressive is how expeditiously the shift was made.

A list of the more important supply actions taken over the past two years is attached in Table 3. When brought together in one place, they make a rather imposing list, I think.

Direct Price and Wage Controls

Another part of the Government's anti-inflation policies is the Economic Stabilization Program, Phase IV of which is now in place. Rarely has there been a more unpopular program. 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.

However unpopular they are, the controls do have an important, though limited, role to play. They can help prevent anticipatory increases in prices and wages. There is a great risk that in the wake of the commodity price explosion of 1973 the American people will think that serious inflation has become a permanent part of the economic landscape.

But past experience tells us that commodity inflation is reversible. The attached chart provides seven centuries of evidence the reversibility of wheat prices. While the secular trend has been persistently upward at a moderate rate -- about half a percent per year over the full period, and 3.3 percent per year over the past century -- the real message of the chart is the short-term volatility of wheat prices. Again and again, enormous increases in one year were followed by equally large declines the next year as farmers responded to the favorable price by increasing production.

This same process is operating again today; production is increasing in response to high prices.

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 and irrespective of costs, 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 at least 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.

But the limits of controls must also be understood. There are serious limits on how much of the anti-inflation fight can be assigned to direct controls and on how long controls can continue to make a net positive contribution to that fight. The costs of controls must be reckoned with, along with the benefits.

Recently we have seen some dramatic evidence of these costs. The price statistics for July and August suggest that while the freeze rules were widely honored this was considerably less true than during the first freeze in 1971. Some of the distortions and disincentives that inevitably accompany controls are evident in the beef shortages of August and the closed gasoline stations this week. While problems of this type have thus far not become dominant, we must realize that more and more will develop as time passes. The longer direct price and wage controls are with us, the more difficulties and unhappiness they will produce.

Looking Ahead

No economic forecaster is very sure about inflation prospects for 1974. The forecasting fraternity has always had great respect for the difficulties of making projections on prices, but the universally bad forecasting experience at the outset of 1973 has made everybody more cautious than ever.

The key questions about the price outlook are easy to identify. First, will demands for food and industrial materials continue to outrun supplies, or will production catch up during 1974? Second, will the commodity inflation of 1973 touch off an acceleration of wage gains?

The pessimists among us tend to answer both of these questions unfavorably. They see gains in employee compensation rising to, say, 8 percent, which after deduction of the 3 percent productivity trend translates into an underlying 5 percent rate of inflation. To this they add something more for contined commodity inflation, and thus end up with a 6 or 7 percent rise in prices for the year.

The optimists, on the other hand, suggest that labor market conditions are not generally tight enough to support an acceleration of wage gains. If this is coupled with a belief that the rapid commodity inflation is behind us, it would produce a forecast of about 4 percen[illegible]tion for 1974. An extreme optimist might conclude as the London Economist did two weeks ago, that commodity prices, especially for industrial materials, will be coming down substantially within a few months -- a conclusion that would lead to something less than a 4 percent inflation forecast for 1974. But an economist with an outlook that happy is almost as hard to find as a passenger pigeon.

It takes a brave or a foolish person to forecast inflation. I prefer not to qualify on either count. In terms of the two scenarios outlined above, however, my own views are much more in line with the optimists.

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Table 1

LARGEST PRICE INCREASES
AMONG COMMODITY SUBGROUPS IN THE WPI
PERCENT CHANGE
AUGUST 1972 TO AUGUST 1973

Farm and Food		Nonfarm	
Animal fats & oils	246	Fats & oils, inedible	125
Crude vegetable oils	173	Wastepaper	35
Grains	167	Wool products	33
Hay, hayseeds & oilseeds	153	Petroleum products, refined	32
Live poultry	152	Lumber	28
Manufactured animal feeds	134	Other wood products	21
Eggs	111	Cotton products	20
Plant & animal fibers	90	Crude rubber	20
Livestock	64	Woodpulp	20
Refined vegetable oils	53	Nonferrous metals	18
Meats, poultry & fish	50	Gas fuels	14
Veg. oil end products	33	Millwork	14
Cereal & bakery products	18	Manmade fiber products	14
Fluid milk	18	Leather	12
Fruits & vegetables	17	Coal	12
Misc. processed foods	13	Commercial furniture	10
Sugar & confectionery	12	Paperboard	10
Other farm products	12	Other leather products	10
Dairy products	11	Paint materials	10

Table 2

Measures of Economic Conditions and Policy

	1971	1972	1973 to date
Unemployment Rate (percent)			
Total	5.9	5.6	4.9
Married males	3.2	2.8	2.3
Inflation (percent)			
Consumer prices	3.5	3.4	7.6
Private GNP deflator	3.9	3.5	7.5
Budget Position ($ billions)			
Federal	-22.2	-15.9	-2.4
Total government	-18.1	-2.8	+10.3
Money Supply Growth (percent)			
Narrowly defined	6.9	7.4	5.7
Broadly defined	11.5	10.6	7.7

Note: Rates of inflation and money supply growth are calculated from fourth quarter to fourth quarter; budget position represents the deficit or surplus for calendar years on a national income accounts basis; 1973 data are at annual rates.

Table 3

MAJOR ANTI-INFLATION SUPPLY ACTIONS

Food

- Sixty million acres of "set-aside" farm land have been released for production.
- All USDA-owned stocks of grain have been sold.
- All USDA loans on farm-stored grain have been called.
- Rice acreage allotments have been increased 20 percent.
- Restrictions on meat imports have been removed.
- All direct export subsidies on food have been removed.
- Import quotas on non-fat dry milk have been raised four times.
- Cheese import quotas have been increased 50 percent.
- Exports of vegetable oils under Government programs have been postponed.
- Marketing orders and other rules of USDA are being coordinated with the Cost of Living Council.
- Authority has been requested in the President's Trade Bill to adjust quotas and tariffs on all items in short supply.

Oil and Gas

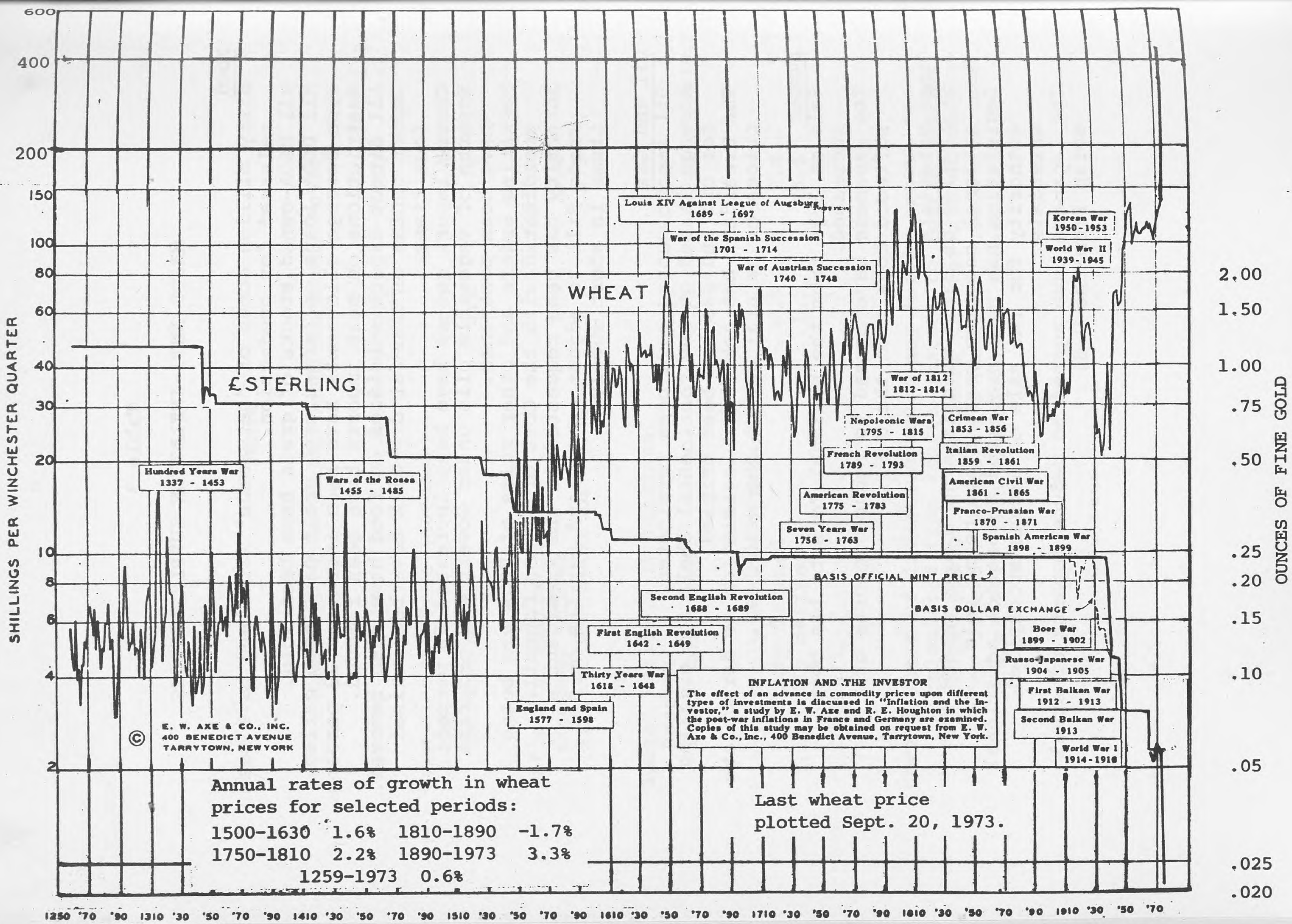
- Oil import quotas have been terminated.
- Acreage leased on the Continental Shelf for drilling for oil and gas has been tripled.
- The President has asked for legislation to deregulate prices of natural gas at the well-head.

Lumber

- Sale of logs from the National Forests has been increased.
- The Japanese have agreed to reduce imports of softwood logs from the U.S.

Other Materials

- Stockpiles of basic materials no longer needed for national security reasons are being sold.
- Legislation has been requested to provide additional authority for the sale of excess stockpiled materials.
- The Japanese have agreed to reduce imports of steel scrap from the U.S.


SHILLINGS PER WINCHESTER QUARTER
OUNCES OF FINE GOLD
WHEAT
£STERLING
Hundred Years War 1337 - 1453
Wars of the Roses 1455 - 1485
England and Spain 1577 - 1598
Thirty Years War 1618 - 1648
First English Revolution 1642 - 1649
Second English Revolution 1688 - 1689
Louis XIV Against League of Augsburg 1689 - 1697
War of the Spanish Succession 1701 - 1714
War of Austrian Succession 1740 - 1748
Seven Years War 1756 - 1763
American Revolution 1775 - 1783
French Revolution 1789 - 1793
Napoleonic Wars 1795 - 1815
War of 1812 1812 - 1814
Crimean War 1853 - 1856
Italian Revolution 1859 - 1861
American Civil War 1861 - 1865
Franco-Prussian War 1870 - 1871
Spanish American War 1898 - 1899
Boer War 1899 - 1902
Russo-Japanese War 1904 - 1905
First Balkan War 1912 - 1913
Second Balkan War 1913
World War I 1914-1918
World War II 1939-1945
Korean War 1950-1953
BASIS OFFICIAL MINT PRICE
BASIS DOLLAR EXCHANGE
INFLATION AND THE INVESTOR
The effect of an advance in commodity prices upon different types of investments is discussed in "Inflation and the Investor," a study by E. W. Axe and R. E. Houghton in which the post-war inflations in France and Germany are examined. Copies of this study may be obtained on request from E. W. Axe & Co., Inc., 400 Benedict Avenue, Tarrytown, New York.
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Annual rates of growth in wheat prices for selected periods:
1500-1630 1.6% 1810-1890 -1.7%
1750-1810 2.2% 1890-1973 3.3%
1259-1973 0.6%
Last wheat price plotted Sept. 20, 1973.
600
400
200
150
100
80
60
40
30
20
10
8
6
4
2
2.00
1.50
1.00
.75
.50
.25
.20
.15
.10
.05
.025
.020
1250 '70 '90 1310 '30 '50 '70 '90 1410 '30 '50 '70 '90 1510 '30 '50 '70 '90 1610 '30 '50 '70 '90 1710 '30 '50 '70 '90 1810 '30 '50 '70 '90 1910 '30 '50 '70

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FOR IMMEDIATE RELEASE September 25, 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 October 4, 1973, in the amount of $4,301,405,000 as follows:

91-day bills (to maturity date) to be issued October 4, 1973, in the amount of $2,500,000,000, or thereabouts, representing an additional amount of bills dated July 5, 1973, and to mature January 3, 1974 (CUSIP No. 912793 SS6), originally issued in the amount of $1,700,985,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,800,000,000, or thereabouts, to be dated October 4, 1973, and to mature April 4, 1974 (CUSIP No. 912793 TF3).

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, October 1, 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 October 4, 1973, in cash or other immediately available funds or in a like face amount of Treasury bills maturing October 4, 1973. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder must include in his income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

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

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

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FOR IMMEDIATE RELEASE

TRANSCRIPT OF A PRESS CONFERENCE
BY SECRETARY OF THE TREASURY GEORGE P. SHULTZ
AT THE KENYATTA CONFERENCE CENTER, NAIROBI,
SEPTEMBER 24, 1973, WHICH WAS EMBARGOED UNTIL DELIVERY
OF HIS SPEECH ON SEPTEMBER 25th

Q. On the subject of appropriations, Mr. McNamara this morning spoke about the fourth IDA replenishment, and the timetable for the replenishment program - as a matter of fact, he said it might not be complete before July next year, which will mean the complete stoppage of the activities of the (inaudible) and the failure of the World Bank. Why precisely, has the U.S. Government taken the decision for reducing IDA replenishment from 40 percent to one third, and asking other countries like Germany and Japan to contribute more, and why has the decision been delayed, especially when it means a complete stoppage of (inaudible) various activities?

A. Mr. McNamara has identified a problem that is an important and difficult problem - we agree it is a problem - we want to see it resolved if we possibly can, and the way to resolve problems is first to identify them. The problem results from the flow of decision making processes as they normally occur. In the case of IDA, the need is for an ability to make commitments for new funds beginning on July 1st - for then they run out of authority to commit. From the standpoint of the various governments, we presume in the next room, they are finally working out the details of the fourth replenishment agreement. Assuming that this is done, then at least from the standpoint of the U.S. and I won't attempt to speak for any other country, of course, but from the standpoint of the U.S., we have to go through two processes. First of course, the President proposes to the Congress what we will do - that is in the speech - and we will propose to the Congress that the U.S. contribute a third of this replenishment. Then the Congress has to act, and it has to act in two senses - first it has to authorize the extension of this credit and that goes through a certain set of committees and is voted on by the Congress. Once there is authorizing legislation, the appropriating committees take it up in the context of a particular budget year, and until they have literally appropriated the money, we can't be sure they will. So there is a structural problem in the way these processes unfold. Now, we expect to send this legislation to the Congress promptly after this meeting - it couldn't be sent until an agreement was finally reached here. We hope that the authorizing legislation can be completed some time next year, prior to June 30th. How this appropriating problem can be handled is a real problem and this is what we have to work on. We have been as forthcoming and decisive as we can be and at the same time, descriptive of our processes. It may be that there are special measures that can be taken by IDA - Mr. McNamara has spoken about some of them and we will try to work with our Congress to see what decision the Congress will make. It is noted in the speech that there are quite a group - I think there are 24 members - of Congress here at this meeting. They stopped in Dakar, Senegal, and inspected a project or two, so they are interested - they want to find constructive answers - but they are an independent branch of our government and they will speak for themselves - that is the nature of our constitutional process.

Remark: I just want to clarify the use of this word "agreement" and what is going on in the next room. What we are looking for is an agreement to submit proposals to legislatures and governments - at least, our government cannot be committed until the legislature has acted. It is an agreement to submit to the legislature.

Q. On what principle can the Government act if this is a three year proposition when their allocation is for a particular year?

A. That is correct. That is a great problem and a hard one to resolve. I think that the appropriation committees, at least in the past, have said that once they have appropriated an installment, that more or less ensures

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that they will appropriate the additional installments, although they cannot absolutely guarantee what a future Congress, which over a three year span, will have some people drop out and some people elected, will do. This is the nature of our system and with various commitments is a constant problem which of course affects projects within the U.S. School districts within the U.S. want to know what they can count on and we can't tell them any more than we can tell our friends abroad what they can count on because that would usurp the prerogative of a future Congress.

Q. On Page 3, you say "we all seek a substantial strengthening of the processes of international adjustment through a blending of objective criteria and international judgment" etc. To what extent does that represent a compromise of or a withdrawal from your original proposal at the IMF meeting last September in Washington?

A. It represents an effort to state a matter of some delicacy in the discussion, in an even-handed manner, and I recognize that both these factors are involved. Through the process of discussion, new things have come up, new ideas for pressures have emerged, such as the negative interest rate idea, and what we have sought of course, in our original plan, and what we still seek in our adjustment process, is backbone, and backbone comes through an assessment process and through the application of pressures. What this has led to is a certain ambiguity about when you have a presumption and when you have an indication that there is going to be an assessment. I would say on the whole, that that issue is not resolved, but I believe that as we work along and get further into other subjects connected with this exercise, we can, on the basis of further work by the deputies which is going forward, can come back to the issue and my judgment is that this is something we can resolve.

Q. The document uses the phrase "it is agreed in reference to this and many other points". Does that accurately reflect the U.S. position?

A. Let me describe the process that was gone through. In July, we had a meeting in Washington -- on the basis of that meeting, a document was drawn up. We were not altogether satisfied with the document, but on the whole we felt it was a fair reflection of the Washington meeting. I think it is a fair statement that particularly on the first day in Paris, Europeans particularly said they did not think so; so there were changes made and we now have a new document which has emerged from that, which is Mr. Morse's document. The language used was that the ministers take note of that document. We felt on the basis of that, it was not necessary for us to go through -- and I think that others felt the same way -- and argue about this document word by word -- this was Mr. Morse's interpretation. There are some things in it we don't think he interpreted quite right, but we don't think it is useful at this point, to continually go over the same ground, particularly in the adjustment and convertibility areas, because as I said a moment ago, they are in a state where with some additional work on the operational meaning of various things which we are all seeking a deeper understanding of, they are in such a shape, that with agreement and good work in other areas, we can come back to them, and we can resolve those issues -- it is better just at this point not to argue over them excessively. I'll put it another way -- in a sense, in Paris, what we said was, assessment can be consultative if pressures are on the basis of presumption. So what emerges in this document is that it is agreed that assessment is consultative, but not agreed that pressures are presumptive -- so we said "there's no deal there". But that is normal in the process of writing up meetings and trying to push things to an agreement -- we don't mind that, but we're not on any hooks. However, we do have the feeling, as I've tried to express here, that agreement can be reached in these areas and there's no point in arguing over little points.

Q. Referring to page 6 of the release, and regarding the improved position of the U.S. balance of trade -- and assuming that it continues to improve and remains in balance and that the balance of payments disappear, my question is -- "what is to become of the presently outstanding 50 billion" of U.S. debt, because I find this very vague. It is dealt with in the report in the group of twenty, but I can't understand what it's saying. Can you give us any idea if there is any solution at all to this problem?

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A. There are various possible solutions proposed and that is an important subject that has not been gone into in detail, other than people saying that they recognize that it is an important problem. I would say that the answer will evolve along two lines -- first, assuming as you just said, which we believe will be true (but it always remains to be seen) that the U.S. balance of trade and balance of payments position improves and comes into surplus and is sustained there. That in the first place, there will be a return of some of those dollars to the United States, particularly if we can figure out how to accompany that situation with the removal of certain actions that we have on the books that might tend to inhibit that somewhat. So the number would be reduced by that process in the first instance -- how much it would be reduced, I don't know. Then, second, there are questions of whether or not the consolidation, if one takes place, and funding, should be on a sort of multilateral basis and involve the IMF directly, or whether or not it should be bi-lateral, that is, each country that has a piece of this action works with the U.S. and we work out our arrangements with them one by one -- that's a possible thing.

Q. Would that mean that they would hold back much money -- is that what you're saying?

A. There are many countries that think that holding dollars, which is by way of saying holding U.S. government securities at high rates of interest, is a pretty good idea, and who think that the dollar will improve in value. So when you combine the high rate of interest with the prospects for the dollar, they are not so sure they want to get rid of it -- so there is that sentiment around. But how this will all interplay remains to be seen, and of course to the extent that the IMF comes into it, then the structure of the SDR becomes an importantly related issue, just as the structure of the SDR and its character is a very important related issue to the whole subject of convertibility. So, in a sense, all these things wind up linking themselves together, which is a point I tried to make in the talk.

Q. Is there anything we can say specifically, has been advanced since July in Washington. Can we say that the U.S. has dropped the idea of automaticity and is now ready for assessment along the lines the Europeans were thinking of, as reflected in the draft that was given to us a few hours ago?

A. The U.S. plan, if you read it carefully, was never a plan for literal, unthinking, blind automaticity -- that was never proposed by us. Our plan was characterized as that, and we have said that if that is what is worrying people (we said this in July) we are willing to give that -- and if we can get something for it, that's even better! But nobody did on that. So it was never a plan for literal automaticity. What is involved however, is in a sense, the amount of weight that goes with an objective indicator and the amount of self-propelled drive there is in the application of pressures, and it is in this area that the degree of backbone in the adjustment process will be established, and that is what we have been arguing about and that is what is not fully resolved, but has been discussed enough so that, at least, I would feel, if we can work out other things appropriately, we can come back to that and I believe also, it is a mistake -- and we try to check ourselves on this -- as we go along all the time -- it is a great mistake to think of this development of a new monetary system, as a kind of game with winners and losers, because this is not the nature of this. What we have to have at the end is a coherent system in which the parts are related to each other, and which works. You can't take one part from over here and another part from over there and put them together so that you've got something from everybody and expect that it will work. At some point, it has to be made coherent and I think it is an area, as the field of trade is an area, where if it works, everyone will gain, so this is not a game of winners and losers; it's basically a game of winners, and I think if we can approach it in that spirit -- and I believe in the discussions of the committee of twenty, they have gone very well on those lines -- and it is that fact and the genuine spirit of give and take in the discussions, that leads me to think that we can come back to an issue like this and work it out.

Q. Have you any comments on the suggestion made this morning for a gradual move towards intervention to defend an internationally agreed set of exchange rates in advance of a fully reformed (inaudible) system?

A. I think that the system that we now have in place, is working pretty well as a transition system, and from the standpoint of the U.S. we believe that the dollar is now under-valued and we would like to see it gain in value. However, we do not think that the way to do that is to, so to speak, re-peg it at some different rate and then defend it -- we think that is a losing proposition -- and I would have hoped that everyone would have learned that. We have developed, as you know, a pattern of intervention that has us in and out of the market, and it is a process by which we can give some body to the market when we feel it needs it to maintain order,

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and we feel it is a good pattern. I don't think we will change from that in this period between now and next August, when we hope to have some new agreed principles.

Q. Current appreciation against all of the 11 leading currencies against dollars in standard parity is 16.7 percent. Would you consider if we were to go to about 11.10 percent that that would be about the proper place for the dollar to go back?

A. I don't want to try to, in a sense, peg it verbally or procedurally. Of course, people look at the dollar in terms of European currencies for some reason, but there is an interesting calculation that I'm sure you're familiar with, which calculates the exchange

(More)

value of the dollar on a trade weighted basis. Of course, our biggest trading partners are Canada and Japan, and on a trade weighted basis, since our exchange position with those has been quite stable since the second devaluation, you don't see quite the swings you do with the European currencies.

Q. On page 7 of your speech, you say that what is lacking is a deep sense of commitment to an agreed international conduct. On page 8, you say you have been encouraged by the wide-spread recognition of the need to equip the IMF to play its full role at the center of the system. I can't reconcile those two points.

A. Allow me to help you to do that. We have a system that has evolved in the face of various pressures and took its shape in the second Paris meeting, and then, evolved some more with the pattern of intervention that I have mentioned. I think in the portion of the talk you were referring to, I had been discussing this present situation and it is tolerable -- it is o.k. We believe, however, it is not the basis for long-term operation. So we are not content to just leave things alone, because it doesn't have connected with it an explicitly set out set of rules that everyone understands, and by which we agree we will abide -- so that is a missing link. In the discussions of the C-20 about what should be put there, there has been a recognition on everyone's part that we need to have a somehow strengthened IMF -- there is a commitment to that.

Q. I'd like to ask you to clarify the United States' position with respect to convertibility and conversion.

A. We said in the U.S. speech last year, that under the right conditions, we were prepared to go back to convertibility, and so we have maintained that position. There is a question about whether or not, in addition to the mechanics of the convertibility system -- and there is a European proposal on that -- but leaving that to the side, there is an issue about whether or not convertibility should be on the basis that if you present me with a dollar, I must give you a reserve asset -- that kind of convertibility -- or there is another kind which is, whether you want to or not, you must present me with that dollar, and we have found that the former arrangement allowed somewhat more elasticity to the system and have advocated that.

VOLCKER: What you said is precisely right -- you get it in other issues here, such as limiting the so-called

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convertibility point, of limiting the ability of particular countries that may be in surplus, to, in effect, hoard the available supply of reserve assets, and there have been other proposals made by others, of a technical character, to implement particular types of convertibility which are controversial. The Secretary is correct that we have said all along that we presume that convertibility means the type of convertibility that has been known all along when conditions are ready and in the context of the whole system.

SECRETARY: I might just mention a point that's triggered by Paul's comment about people wanting to accumulate reserves, to show the inter-relation of that subject with SDR. If you have what is called a very robust SDR, which pays a high rate of interest and makes it very desirable to hold, then our fear is that you will just encourage people to run perpetual surpluses and you will, in effect, be removing some of the backbone from the adjustment process by the way you set up the SDR. I mention that just by way of illustrating just how connected all these things are -- there is a thread runs all through, so that in the end, again one has to find a coherent pattern that fits together rather than a little bit from here and a little bit from there.

Q. On page 3, you have summarized the broad framework of the new system. I think there is also near unanimity about SDR and the development finance link. The franc group, Commonwealth finance ministers, broadly, the French and Italian. So I do not think it is a fair summary of the emerging new system -- and you have also mentioned that we shall have to go to legislators for approval. I do not think that any developing country that is named, would approve of any new system which has no link with SDR and I would like to ask you why United States, which is almost in a minority of one, and perhaps, Germany, has been a stumbling block to this very worthwhile step for bridging the gap between the rich and the poor world?

A. If you will turn to page 11, we take that up. I agree with you that most people in C-20 have spoken in favor of the link and (you're from India?) your delegate has said what you said, that unless he gets what he wants, there will be no agreement. I don't like to speak on absolutes like that, but our position is opposed to the link, and we have stated that explicity on many occasions, and we state it again before this audience, that will not be particularly friendly to that point of view, I'm sure, but nevertheless, we feel we should say what we think and --

certainly be willing to examine always -- but we have examined it and we don't think it's a good idea. Fundamentally, because we think it will make for real trouble in the monetary system, and we think it's a hard job -- and goodness knows that problems we've seen in exchange markets show that -- it's a hard job to get it all together, and make a monetary system work and to get a new paper, international currency really off the ground and accepted -- that's a hard job in and of itself. To load on to that the task of distributing resources from the developed to the developing countries, by virtue of the issuance of the SDR, we feel, would start the system in a very questionable way and it might bring the whole thing down before it could get going as a monetary system. And so, basically, for that reason, we have opposed the link and we have said that development assistance, official aid, should come through the regular processes of being voted by legislatures and so on. That is our position.

Q. Will you agree to re-allocation of quotas? Today, United States alone has 26 percent of quotas, all less developed countries together have only 26 percent. If you agree to the re-allocation of quotas, then also SDR would be more meaningful. Today, the lion's share of SDR, as the present arrangement is, tends to your credit. But now, with the re-organization of IMF, will you really agree to accept such re-allocations that the less developed countries can get at least as much as 50 percent? The less developed countries today have only 26 percent. From 26 percent will you re-allocate to 50 percent?

A. Let me say first of all that I don't think you're correct in the U.S. percentages -- we can look that up. But I think your question illustrates the problem I was trying to highlight, that is, what is the purpose of the SDR and how do you relate that purpose to the way in which the SDR's are passed around. The purpose of it, presumably, is to be an effective and trusted numeraire for a monetary system, a trading and investment system. So I think that if that is the purpose

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somehow or other it is proper to relate SDR allocation to the volume of trade and economic activity generated by various countries. That is an allocation scheme that is related to the purpose for which this new money is created. Now I believe the facts are that to the extent that that is the basis for SDR allocations, and it was, basically, when it was created, the developing countries have a far disproportionate share just now. But going back to your question about the link - whether what we have is a fair summary or not, I don't know. Certainly, I agree with you that most countries seem to have supported the link, but we have been very clear, unambiguous, no one can misquote us even, on our attitude on the link.

Q. Going back to IDA, if it turns out that they run out of funds on July 31st, and it looks like most governments, as with previous replenishments, are going to come through, but it's going to take more time, including the U.S. government, to actually get approval, would you support and would you lobby for an interim allocation for IDA to keep it going?

A. We will examine and we are examining ways of meeting the problem, and there are various ways, and I think this is the type of question where there needs to be discussion within the bank group and also with our Congress about what we are going to do and what they may prefer about various alternative arrangements, so we will want to consult with them rather than to sponsor any one method of going about solving this problem.

Q. In connection with your reference to the improved U.S. trade position, and the importance of this in implementing monetary reform, I would like to ask what is the relation of the trade position to the decision making process in reaching monetary reform?

A. The relation is primarily in terms of the question raised about the dollar balances and if we go into a system with big outstanding dollar balances and more being created, we know we are not in equilibrium to begin with, and that's not a very good situation to start in on, so I think that is basically, the relationship.

Q. Does that mean that a decision would have to wait until we are firmly in balance on this package that's due to come at the end of next July?

A. It's certainly strategic that the U.S. should not be running a big deficit, as it has in the past, and if we adopted a new system, and right away with that new system, we continued the same trends, with some big surpluses, and the U.S.with a big residual deficit, the system would break down. So that would be the worst thing in the world to have happen. What we want is a system that will work and will get off the ground. Now I believe that the U.S. position is getting better, and is getting better rapidly -- I would have to say however, that we have thought that in the past, but it hasn't come out that way, so the facts will have to come in.

Q. Explain what you said on page 23 - "we look to others to help maintain the flow of energy, so long as their own legitimate needs and aspirations are fairly recognized." Could you explain what you mean by this last sentence?

A. What we mean is that obviously, the world needs a flow of oil from the oil producing countries and questions have been raised about that. We feel that oil should continue to flow, we also recognize that the aspirations and needs of those countries need to be fully recognized in this process, and that goes not only to what they may want to have happen in their own countries, and what help may be given, but also in the willingness to receive investment from them in profitable ventures. In other words, I don't think the oil consuming countries can say to the oil producing countries "you produce all this oil, but we won't take your investment." Those things don't fit together - we have to welcome this investment.

Q. Your answer to the previous question. Do I take it from that, that monetary reforms will have to wait until the U.S. deficits are in control?

A. Yes.

Q. Should we expect that you might change your mind about your promise to remove existing controls (remainder inaudible)?

A. We have said that we intend to remove those controls by the end of 1974 and it is our objective to do so and we think it will be constructive over any period of time to do that. The timing of it is important. I don't want you to run off with any misinterpretation of my unambiguous answer to your previous question. The point

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of it is, and I believe that this is a widely shared judgement, even you seem to share it, that the U.S. balance of payments situation is getting into pretty good shape, and that is one reason why it was felt by us and others, that we have a reasonable enough chance to wind things up - that we should set a date and try to make the decisions that are necessary, to try to bring about reform.

Q. Is it true that Arabic nations have approximately $30 billion invested in the dollar market?

A. I don't know the answer to that question.

Q. Is the fact that we have not yet reversed the balance of payments, the principal reason why agreement on reform has been so difficult?

A. No. The discussion of reform has been on an intellectual plane, so to speak, about how this will work and so on, and I think there has been a general recognition by everybody, that a new system under which the larger surpluses and sustained surpluses and deficits that broke the old system down, just continues - that such a system wouldn't work. Everybody recognizes that.

Q. What rate of interest on reformed SDR's do you have in mind?

A. This is not my group to negotiate with - we'll negotiate in the Group of Twenty.

Q. In negotiating with the Group of Twenty, are the reports that circulate, coming from the European side, that the U.S. has toughened its negotiating stance, correct, after the July meeting?

A. No. At least, our interpretation is that after the July meeting, a report was submitted by Mr. Morse, which we thought was not altogether satisfactory, but a reasonable reflection of the July meeting, and it was that report which the Europeans found so objectionable and we didn't agree with them about that. The important thing is that I think we have those subjects in a state where with some further work on operational matters that cover a variety of ways of doing the adjustment process and convertibility, we can come back to that, trying to link into it, the character of the SDR and some of these other questions that have been raised today. With good success on that, we can come back to that and resolve those issues, and you really are not going to agree on anything ultimately, until you can agree on everything - not that there aren't parts that can be implemented - but I think that finally, its got to be a coherent whole that fits together.

Q. Some people suggested that this effort to put together an enormously complex package or, as some people said, to re-constitute Bretton Woods, is really heading off in a wrong and unnecessary direction. That with imperfections, the existing arrangements aren't working all that bad, and that the U.S. at least, ought to concentrate on rules for floating rather than a more or less fixed system, with rules for flexibility. How do you re-act to that?

A. We've answered that. That is, the present situation is certainly workable. The new system does envisage, at least as we see it, clearly, floating and as the quote goes "in particular circumstances" and we won't argue about exactly what that means, so if there are particular circumstances in which you are going to float, you should have some rules known about how that will work, and so we believe that. At the same time, we believe that we will all be better off if we can put together a better understood system along the lines we have suggested and which we are working on.

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

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FOR IMMEDIATE RELEASE September 27, 1973

SALE OF BILLS TO COMPLETE 52-WEEK CYCLE

The Treasury today announced the sale of $1.8 billion of bills maturing on July 30, 1974. The issuance of these bills will complete the cycle of maturities on Tuesdays at four-week intervals, the establishment of which was begun last year.

The bills will be auctioned on Wednesday, October 3, for payment on Tuesday, October 9. Commercial banks may make payment for 50% of their own and their customers' accepted tenders by credit to Treasury tax and loan accounts.

Department of the TREASURY NEWS

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FOR IMMEDIATE RELEASE September 27, 1973

TREASURY'S 294-DAY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for $1,800,000,000, or thereabouts, of 294-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 October 9, 1973, and will mature July 30, 1974 (CUSIP No. 912793 UB0) when the 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, October 3, 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.

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, October 3, 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.

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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 in cash or other immediately available funds on October 9, 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.

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MEMORANDUM FOR THE PRESS SEPTEMBER 27, 1973

Secretary of the Treasury George P. Shultz will leave Nairobi, Kenya for Moscow tomorrow (Friday, September 28) to head the United States delegation to the second meeting of the joint US-USSR Commercial Commission.

Secretary Shultz is Chairman of the U.S. Section of the Commission, which was set up by President Nixon and Soviet Premier Leonid Brezhnev to speed East-West Trade.

Enroute to Moscow, Secretary Shultz will be joined by Secretary of Commerce Frederick B. Dent, who has been holding trade talks in Poland, Hungary and Austria. The party will spend Friday and Saturday night at Sochi and arrive in Moscow Sunday evening.

Besides Secretaries Shultz and Dent, the U.S. delegation at Moscow will include Under Secretary of State for Economic Affairs William J. Casey, who has been with Secretary Shultz at the International Monetary Fund and World Bank Meetings in Nairobi. Trade experts from several government departments and agencies are also included in the delegation.

While in Moscow, Secretary Shultz will meet with Deputy Premier Vladimir N. Novikov and confer with USSR Finance Minister Vasiliy F. Garbuzov in addition to the

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working sessions of the Joint Commission, whose Russian Co-chairman is USSR Minister of Foreign Trade Nikolay S. Patolichev.

Secretary Dent will hold separate meetings with USSR Minister of Light Industry Nikolay N. Tarasov and Gosplan Foreign Trade Division Chief Victor B. Spandaryan. Under Secretary Casey will hold a separate meeting with USSR First Deputy Foreign Minister Vasiliy V. Kuznetskov.

The U.S. delegation will take part in opening of the new U.S. Commercial Office in Moscow during its visit.

Secretaries Shultz and Dent will hold a news conference Wednesday, October 3rd prior to leaving Moscow for Leningrad and Bonn. In Bonn, Secretary Shultz will address the German Society for Foreign Affairs Friday and the U.S. group will then go to Belgrade for talks with Yugoslav leaders. Secretary Shultz is due back in Washington October 8th.

The delegation for the Moscow trip includes:

George P. Shultz	Assistant to the President and Secretary of the Treasury
Frederick B. Dent	Secretary of Commerce
William J. Casey	Under Secretary of State for Economic Affairs
Jack F. Bennett	Deputy Under Secretary of Treasury
Carroll Brunthaver	Assistant Secretary of Agriculture
Steven Lazarus	Deputy Assistant Secretary of Commerce for East-West Trade
George Aldrich	Deputy Legal Adviser, Department of State

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John Jackson	General Counsel, Office of Special Representative for Trade Negotiations
Lewis W. Bowden	Director, Office of East-West Trade Development, Bureau of East-West Trade, Department of Commerce
Milton Kovner	Deputy Director, Office of Soviet Union Affairs, Department of State

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NEWS

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FOR RELEASE
FRIDAY, SEPTEMBER 28, 1973

DEPUTY SECRETARY OF TREASURY AND MINISTER NAZER OF SAUDI ARABIA MEETING

William E. Simon, Deputy Secretary of the Treasury, and Hisham Nazer, Minister of State and President of the Central Planning Organization of Saudi Arabia, met for three hours on Thursday and focused on a wide range of issues.

Mr. Simon, who also serves as Chairman of the President's Oil Policy Committee, reported that he discussed with Minister Nazer the fact that world energy needs are growing each year and that in order to meet these needs, world oil production must be increased. Mr. Simon emphasized that the United States is acutely aware of the need for improvement in the political atmosphere in the Middle East and this subject has the highest priority for us. He said that we are giving serious attention at the highest levels of our government to helping Saudi Arabia meet its objectives of economic diversification and sound growth.

Mr. Simon said, "we expect that any differences between us and Saudi Arabia will be resolved through negotiation and in the spirit of long-standing close relations between our countries."

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Mr. Simon said, "we hope that Saudi Arabia will make investments and hold reserves in a way that achieves the industrial development goals of its country and also promotes international monetary cooperation. We in turn are seeking to provide the proper climate for sound investment by Saudia Arabia in the United States." Mr. Simon said he found the meeting most useful and constructive and hopes that it will be the first of many meetings as the United States and Saudi Arabia act in a spirit of friendship and cooperation to solve their mutual problems.

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Department of the TREASURY NEWS
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FOR IMMEDIATE RELEASE September 28, 1974

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 October 11, 1973, in the amount of $4,301,080,000 as follows:

91-day bills (to maturity date) to be issued October 11, 1973, in the amount of $2,500,000,000, or thereabouts, representing an additional amount of bills dated July 12, 1973, and to mature January 10, 1974 (CUSIP No. 912793 ST4), originally issued in the amount of $1,701,710,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,800,000,000, or thereabouts, to be dated October 11, 1973 and to mature April 11, 1974 (CUSIP No. 912793 TG1).

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, October 5, 1973. Tenders will not be received at the Treasury Department, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

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

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on October 11, 1973, in cash or other immediately available funds or in a like face amount of Treasury bills maturing October 11, 1973. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder must include in his income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

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

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FOR IMMEDIATE RELEASE

STATEMENT OF JOHN K. CARLOCK
FISCAL ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE COMMITTEE ON BANKING AND CURRENCY
HOUSE OF REPRESENTATIVES
ON H.R. 10265, EXTENDING THE AUTHORITY
OF THE FEDERAL RESERVE BANKS
TO PURCHASE U. S. OBLIGATIONS DIRECTLY FROM THE TREASURY
TUESDAY, OCTOBER 2, 1973, AT 10:00 A.M.

Mr. Chairman and Members of the Committee:

I am happy to have the opportunity to appear in support of section 2 of H.R. 10265. That section would extend until June 30, 1974, the existing authority of the Federal Reserve Banks to purchase directly from the Treasury public debt obligations up to a limit of $5 billion outstanding at any one time. In the absence of action, this direct-purchase authority will expire at the end of this month.

The purpose of the direct-purchase authority is to assist in the efficient management of the public finances. On the basis of the record, I do not believe the legislation to extend the authority for a temporary period is controversial. The authority was first granted in its present form in 1942 for a temporary period, and it has been renewed for temporary periods on seventeen separate occasions.

Since 1942 the authority has been used prudently, on only a limited number of occasions. Its value does not rest, however, on its frequent or extensive use. It rests, rather, on the fact that,simply by being available, a back-stop is provided for all our Treasury cash and debt operations, permitting more economical management of our cash position and assuring our ability to provide needed funds almost instantaneously in the event of any kind of emergency.

Several points may be summarized to indicate why we feel that maintenance of this authority is essential. First, it provides us with the margin of safety, permitting us to let our cash balance fall to otherwise unacceptably low levels preceding periods of seasonally heavy revenues. This, in turn, results in balances that are not as high as they otherwise would be during the periods of flush revenues that follow, allowing the public debt to be kept to a minimum and thus saving interest costs to the Government.

Our recent experience illustrates the benefit of being able to operate in this way. In August, you will recall the money and capital markets were extremely sensitive to demands upon them. It was therefore necessary to keep Treasury borrowing in those markets to a rock-bottom minimum. We

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were able to do this because, if cash requirements exceeded our projections, we would have the direct-purchase authority to rely on. As it turned out, our cash requirements did slightly exceed our projections, and we used the direct-purchase authority on one day, August 15, in the amount of $351 million, and for nine days between September 7th and 17th in a maximum amount of $485 million. If we had not had the authority, we would have had to borrow considerably more than this amount in the market - probably as much as $1.5 billion - in order to have a prudent margin, and we would be carrying that amount now in our cash balances which are already seasonally high because of the September cash collections.

In the second place, there is always the possibility that erratic swings in money market conditions or international flows of funds may produce changes of a character that rather suddenly reduce our borrowings from other sources. While we have never to my knowledge had to use the authority for this reason, the availability of direct access to Federal Reserve credit in such circumstances would permit us the flexibility required to draw on our cash and to arrange alternative financing plans.

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Finally, the direct-purchase authority is available to provide an immediate source of funds for temporary financing should this be required by a national emergency on a broader scale. While it has never happened, and we hope it never will, a situation could be possible in which our financial markets would be disrupted at a time when large amounts of cash had to be raised to maintain Governmental functions and meet the emergency. Consequently, the direct-purchase authority has for many years been a key element in all of Treasury's financial planning for a national emergency or a nuclear attack. This is a major reason why the authority should be continued for at least $5 billion, even though little more than a fifth of that amount has ever actually been used in the past.

I want to emphasize,consistently with these three points, that the direct-purchase authority is viewed by the Treasury as a temporary accommodation to be used only under unusual circumstances. The Treasury fully agrees with the general principle that its new securities should meet the test of the market. Nor should the direct-purchase authority be considered a means by which the Treasury may independently attempt to influence credit conditions by

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circumventing the authority of the Federal Reserve to engage in open market operations in Government securities. In that connection, it is important to emphasize that any direct recourse by the Treasury to Federal Reserve credit under this authority is subject to the discretion and control of the Federal Reserve itself.

This borrowing authority has never been abused. The accompanying table, providing details on the instances of actual use, shows that it has been used infrequently and only for limited periods. The borrowings are promptly shown on the Daily Treasury Statement and the weekly Federal Reserve statement, assuring the widespread publicity that is the best possible deterrent to abuse. The Federal Reserve also includes the information in its Annual Report to the Congress. And, of course, this borrowing, like any other Treasury borrowing, is subject to the debt limit.

As an essential backstop to our cash management and an insurance policy against financial emergency, this authority should be kept available in case of need.

oOo

DIRECT BORROWING FROM FEDERAL RESERVE BANKS
1942 TO DATE

Calendar Year	Days Used	Maximum Amount At Any Time (Millions)	Number Of Separate Times Used	Maximum Number Of Days Used At Any One Time
1942	19	$ 422	4	6
1943	48	1,320	4	28
1944	none	-	-	-
1945	9	484	2	7
1946	none	-	-	-
1947	none	-	-	-
1948	none	-	-	-
1949	2	220	1	2
1950	2	180	2	1
1951	4	320	2	2
1952	30	811	4	9
1953	29	1,172	2	20
1954	15	424	2	13
1955	none	-	-	-
1956	none	-	-	-
1957	none	-	-	-
1958	2	207	1	2
1959	none	-	-	-
1960	none	-	-	-
1961	none	-	-	-
1962	none	-	-	-
1963	none	-	-	-
1964	none	-	-	-
1965	none	-	-	-
1966	3	169	1	3
1967	7	153	3	3
1968	8	596	3	6
1969	21	1,102	2	12
1970	none	-	-	-
1971	9	610	1	9
1972	1	38	1	1
1973*	10	485	3	6

* Through September 30, 1973

J 15

SEP 28 1973

Dear Mr. Chairman:

Pursuant to Section 4 of Public Law 93-17, approved April 10, 1973, the Treasury Department has conducted a study concerning the Canadian exemption from the Interest Equalization Tax. Executive Order 11175 of September 2, 1964, as amended by Executive Order 11314 of September 12, 1966, provides for an exclusion from the IET for original or new Canadian issues of stock or debt obligations. This exclusion is based upon a determination, under Section 2 of the Interest Equalization Tax Act approved September 2, 1964, (Public Law 88-563) that the application of the tax would have "such consequences for Canada as to imperil or threaten to imperil the stability of the international monetary system."

Since 1964, Canada has moved from a fixed exchange rate system to a floating system and there have been many other significant developments affecting the international monetary environment. The case for the Canadian exemption in these changed circumstances is not as compelling as it was at the time it was first established. Nevertheless, I have concluded that sufficient justification continues to exist, within the requirements of the Interest Equalization Tax Act, as amended, for continuing the exclusion for Canada. The principal reasons include the following:

1) The United States and Canadian economies and financial systems continue to be closely interrelated. A major action, such as elimination of the IET exemption, would create substantial disturbances to the present structure of the financial links between our two countries.

2) To the extent that imposition of the IET restraint on capital flows from the United States to Canada would reduce the supply of U.S. dollars for conversion into Canadian currency, the Canadian dollar's quotation in terms of the U.S. dollar would tend to depreciate under Canada's floating exchange rate regime. Such a development would be conducive to a further increase in the already large bilateral trade deficit that the United States has with Canada.

Two letters here

WES

Picked up by Mr.

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3) The elimination of the Canadian exemption would be likely to generate important shifts in the direction of international capital movements as Canadian borrowers would seek to find substitute sources of funds in international markets. In the present transitional phase between an old and a new international monetary system we have seen that developments inducing significant changes in the pattern of capital flows can easily generate uncertainties and unsettling pressures on the exchange markets. I believe it would not be prudent to add to such risks.

In addition to these considerations, I am mindful of our commitment to phase out the IET and the other restraints on United States capital outflows no later than the end of 1974. Placing an IET barrier between the U.S. and Canada for such a relatively short period would create unwarranted interference with the relationships that have been built up over the years between Canadian borrowers and U.S. lenders. Canadian provinces and other traditional users of U.S. funds would be forced to reassess their plans and procedures and U.S. lenders and financial intermediaries would lose opportunities that might be difficult to recapture in the future. Finally, in the light of the policy decision to terminate the IET, it would be incongruous to act at this late date in a contradictory direction by removing an exemption from a tax that we are determined to eliminate.

I am sending a similar letter to Senator Russell B. Long, Chairman of the Senate Finance Committee.

Sincerely yours,

(Signed) William E. Simon

William E. Simon
Acting Secretary

The Honorable
Wilbur D. Mills, Chairman
Committee on Ways and Means
House of Representatives
Washington, D.C. 20515

OASIA:RAnderson:RVKorp:kaw:9-28-73

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SEP 28 1973

Dear Senator Long:

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bcc WES (File - [illegible])
1 cc [illegible]

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I am sending a similar letter to Mr. Wilbur Mills, Chairman of the House Ways and Means Committee.

Sincerely yours,

(Signed) William E. Simon

William E. Simon
Acting Secretary

The Honorable
Russell B. Long, Chairman
Finance Committee
United States Senate
Washington, D.C. 20510

OASIA:RAnderson:RVKorp:kaw:9-28-73

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

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FOR RELEASE 6:30 P.M. October 1, 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 October 4, 1973, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing January 3, 1974		26-week bills maturing April 4, 1974	
	Price	Equivalent annual rate	Price	Equivalent annual rate
High	98.219	7.046%	96.196	7.524%
Low	98.167	7.251%	96.150	7.615%
Average	98.193	7.149% 1/	96.166	7.584% 1/

Tenders at the low price for the 13-week bills were allotted 28%.
Tenders at the low price for the 26-week bills were allotted 84%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 27,355,000	$ 17,355,000	$ 17,340,000	$ 7,340,000
New York	2,530,305,000	1,927,305,000	2,542,120,000	1,423,820,000
Philadelphia	46,270,000	37,670,000	8,230,000	8,230,000
Cleveland	31,365,000	31,365,000	21,830,000	21,630,000
Richmond	17,235,000	17,235,000	16,825,000	13,300,000
Atlanta	22,055,000	22,055,000	21,830,000	17,955,000
Chicago	218,450,000	218,450,000	290,895,000	140,895,000
St. Louis	39,480,000	39,480,000	66,850,000	57,175,000
Minneapolis	31,400,000	31,400,000	21,670,000	11,470,000
Kansas City	28,860,000	27,140,000	25,955,000	20,855,000
Dallas	37,835,000	34,825,000	37,800,000	15,300,000
San Francisco	97,185,000	95,745,000	119,875,000	62,395,000
TOTALS	$3,127,795,000	$2,500,025,000 a/	$3,191,220,000	$1,800,365,000 b/

a/ Includes $277,380,000 noncompetitive tenders accepted at the average price.
b/ Includes $195,345,000 noncompetitive tenders accepted at the average price.
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 7.38% for the 13-week bills, and 8.00% for the 26-week bills.

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7,149 Lowest Since

June 11, 1973 7,129

Last Week 7,331

182

7,584 Lowest since

June 25, 1973 7,299

Last Week 7,661

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

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MEMORANDUM TO CORRESPONDENTS: October 2,1973

Attached is a copy of the letter of transmittal from the Acting Secretary of the Treasury to the Speaker of the House proposing changes in the Tariff Act of 1930. A copy of the bill is attached. A similar letter was transmitted to the President of the Senate.

Attachments

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THE SECRETARY OF THE TREASURY
WASHINGTON

2 2 2

OCT 2 - 1973

Dear Mr. Speaker:

There is transmitted herewith a draft bill, "To amend the Tariff Act of 1930 to provide an exemption from the restrictions of the trade-mark laws."

The draft bill would exempt from the trade-mark restrictions imposed by section 526 of the Tariff Act of 1930 (19 U.S.C. 1526) and section 42 of the Act of July 5, 1946 (15 U.S.C. 1124), articles imported in limited quantities accompanying persons arriving in the United States and intended for their personal use.

The present provisions of the trade-mark law require the United States Customs Service of this Department to interfere with the personal purchases of returning American tourists in thousands of instances annually. This is a constant cause of irritation for traveling Americans. In addition, this aspect of the law, while serving little or no useful purpose, is expensive for the Customs Service to administer. Under existing law, trade-mark owners may absolutely prohibit the importation of items bearing the trade-marks which they control. Many of the kinds of things which American tourists normally buy abroad, for example, perfumes, watches, and cameras, are subject to these restrictions by trade-mark owners.

The proposed legislation would remove these restrictions in the case of persons entering the United States with goods which they purchased abroad for personal purposes and not for resale. The types and quantities of such goods would be determined by the Secretary of the Treasury and published in the Federal Register. In all other instances, trade-mark owners will continue to have procedural remedies presently found in existing law.

There are also enclosed copies of an analysis which explains the provisions of the draft bill in detail and of a comparative type which shows the changes that would be made in existing law by the proposed legislation.

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

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,

William E. Simon
Acting Secretary

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

Enclosures 3

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A BILL

To amend the Tariff Act of 1930 to provide an exemption from the restrictions of the trade-mark laws.

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

That section 526 of the Tariff Act of 1930 (19 U.S.C. 1526), is amended by--

(1) striking the first word "It" in subsection (a) and inserting in lieu thereof "Except as provided in subsection (d) of this section, it"; and

(2) adding a new subsection "(d)" to read:

"(d)(1) The trade-mark provisions of this section and of section 42 of the Act of July 5, 1946 (60 Stat. 440; 15 U.S.C. 1124), shall not apply to the importation of articles accompanying any person arriving in the United States when such articles are for his personal use and not for sale if (i) such articles are within the limits of types and quantities determined by the Secretary of the Treasury pursuant to paragraph (2) of this subsection, and (ii) such person has not been granted an exemption under this subsection within 30 days immediately preceding his arrival.

(2) The Secretary of the Treasury shall determine and publish in the Federal Register lists of the types of articles and the quantities of each which shall be entitled to the exemption provided by this subsection. In determining such quantities of particular types of trade-marked articles, the Secretary of the Treasury

shall give such consideration as he deems necessary to the numbers of such articles usually purchased at retail for personal use.

(3) If any article which has been exempted from the restrictions on importation of the trade-mark laws under this subjection is sold within one year after the date of importation, such article, or its value (to be recovered from the importer), shall be subject to forfeiture. A sale pursuant to a judicial order or in liquidation of the estate of a decedent shall not be subject to the provisions of this paragraph.

(4) The Secretary of the Treasury is authorized to prescribe such rules and regulations as may be necessary to carry out the provisions of this subsection."

Sec. 2. Section 42 of the Act of July 5, 1946 (15 U.S.C. 1124), is amended by striking the first word "That" and inserting in lieu thereof "Except as provided in subsection (d) of section 526 of the Tariff Act of 1930,".

ANALYSIS

Section 42 of the Act of July 5, 1946 (15 U.S.C. 1124), hereinafter called "the 1946 Act," which reenacted without change the provisions of section 27 of the Act of February 20, 1905 (33 Stat. 730), prohibits the importation of merchandise that copies or simulates the name of any domestic manufacture, manufacturer or trader, or of any manufacturer or trader located in a foreign country which affords similar privileges to United States citizens, or which copies or simulates a trade-mark registered in accordance with the 1946 Act or which bears any mark or name calculated to induce belief that the merchandise is manufactured in the United States. Section 42 of the 1946 Act also authorizes a procedure pursuant to which manufacturers or traders may record their names and registered trade-marks with the Department of the Treasury and provide identifying facsimiles for its use as an aid to enforcement.

Section 526 of the Tariff Act of 1930, as amended (19 U.S.C. 1526), makes it unlawful to import any merchandise of foreign manufacture if such merchandise, or its label or wrapper, bears a trade-mark owned by a corporate or real citizen of the United States and registered in accordance with the 1946 Act, unless written consent of such owner to its importation is produced at the time of making customs entry of the marked merchandise. This section has been consistently interpreted by the United States Customs Service for the past 20 years as excluding from protection foreign-produced merchandise bearing a genuine trade-mark created, owned, and registered by a citizen of the United States if the foreign producer has been authorized by the American trade-mark owner to produce and sell abroad goods bearing the recorded trade-mark. Protection is accorded under section 526 to trade-mark owners if an attempt is made to import such merchandise in violation of an agreement authorizing the foreign producers to sell only to the trade-mark owner. In addition, if merchandise bears a genuine trade-mark created outside the United States the rights to which have been assigned to and recorded by a United States citizen, protection is also granted. Section 526 also provides specific remedies to enforce compliance with its provisions.

The continued automatic exclusion under section 526 of most merchandise bearing a genuine trade-mark, without distinguishing between merchandise arriving in commercial quantities and merchandise accompanying a person arriving in the United States and intended for personal use, has generated substantial controversy in regard to the impact of this policy on Americans traveling abroad and purchasing, in good faith, articles bearing a genuine mark.

Frequent complaints are received from these persons when they find on their return to the United States that such articles are prohibited importation under the trade-mark laws unless the written consent of the trade-mark owner is obtained or the offending trade-mark is obliterated or removed from the articles. Although Customs expends a great deal of time, talent, and money to put the traveling public on notice as to these restrictions, experience has shown that the vast majority of violations occur because the returning traveler is unaware of the law. This situation creates a great deal of ill will not only for Customs but for the trade-mark owner as well.

The draft bill would grant a limited exemption from such trade-mark restrictions by permitting the Secretary of the Treasury to authorize the importation of limited quantities of trade-mark merchandise accompanying persons arriving in the United States, if such merchandise is intended for personal use and not for resale.

The first section of the bill would amend section 526 of the Tariff Act of 1930 by adding thereto a new subsection (d) dealing with the personal exemption, and adding language at the beginning of subsection (a) to except merchandise entered under new subsection (d) from the trade-mark restrictions of section 526.

New subsection (d) would establish an exemption for imported merchandise accompanying persons arriving in the United States, for their personal use, within limitations of type and quantity to be specified by the Secretary of the Treasury in regulations, provided that such an exemption has not been claimed by the same person within the preceding 30 days. If any article exempted under the subsection is sold within one year following its importation, the article or its value (to be recovered from the importer) is subject to forfeiture.

In establishing the quantitative limits, it is contemplated that the Secretary, through the Customs Service, would conduct a survey to determine the quantities in which particular types of articles are usually purchased at retail for personal use. The inquiry would be directed to types of articles rather than individual trade-marks. For example, if the type of article were cameras, it is believed that a study would show that such articles, if for personal use, are usually purchased singly. Therefore, the Secretary would probably establish the quantitative limits for cameras at one. Also, it is contemplated that before any list of such types of articles is given effect, a list giving tentative determinations with respect to quantitative limits for each type of article would be published in the Federal Register and all interested persons given an opportunity to state their views in writing.

The draft bill would limit this privilege to articles accompanying persons arriving in the United States. This will eliminate a burdensome administrative problem and is in keeping with the practice at the present time since trade-mark owners granting consents to the importation of limited numbers of articles bearing their trade-marks generally do not extend such consents to include "articles to follow."

The provisions of the present law which require Customs to apply the restrictions on importation against articles for personal use acquired abroad by tourists and other travelers impose an inordinate administrative burden upon the Customs Service.

Section 2 of the bill would amend section 42 of the Act of July 5, 1946, by adding at the beginning of that section language which excepts from the general trade-mark restrictions merchandise which falls within new subsection (d) of section 526 of the Tariff Act of 1930.

COMPARATIVE PRINT SHOWING CHANGES IN EXISTING LAW
MADE BY PROPOSED BILL

Changes in existing law proposed to be made by the bill are shown as follows (existing law proposed to be omitted is enclosed in brackets, new matter is underscored):

THE TARIFF ACT OF 1930

* * *

TITLE III—SPECIAL PROVISIONS

* * *

SECTION 526. MERCHANDISE BEARING AMERICAN TRADE-MARK

(a) IMPORTATION PROHIBITED.—[It] Except as provided in subsection (d) of this section, it shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise, or the label, sign, print, package, wrapper, or receptacle, bears a trade-mark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent Office by a person domiciled in the United States, under the provisions of the Act entitled "An Act to authorize the registration of trade-marks used in commerce with foreign nations or among the several States or with Indian tribes, and to protect the same," approved February 20, 1905, as amended, and if a copy of the certificate of registration of such trade-mark is filed with the Secretary of the Treasury, in the manner provided in section 27 of such Act, unless written consent of the owner of such trade-mark is produced at the time of making entry.

* * *

(d) (1) The trade-mark provisions of this section and of section 42 of the Act of July 5, 1946 (60 Stat. 440; 15 U.S.C. 1124), shall not apply to the importation of articles accompanying any person arriving in the United States when such articles are for his personal use and not for sale if (i) such articles are within the limits of types and quantities determined by the Secretary of the Treasury pursuant to paragraph (2) of this subsection, and (ii) such person has not been granted an exemption under this subsection within 30 days immediately preceding his arrival.

(2) The Secretary of the Treasury shall determine and publish in the Federal Register lists of the types of articles and the quantities of each which shall be entitled to the exemption provided by this subsection. In determining such quantities of particular types of trade-marked articles, the Secretary of the Treasury shall give such consideration as he deems necessary to the numbers of such articles usually purchased at retail for personal use.

(3) If any article which has been exempted from the restrictions on importation of the trade-mark laws under this subsection is sold within one year after the date of importation, such article, or its value (to be recovered from the importer), shall be subject to forfeiture. A sale pursuant to a judicial order or in liquidation of the estate of a decedent shall not be subject to the provisions of this paragraph.

(4) The Secretary of the Treasury is authorized to prescribe such rules and regulations as may be necessary to carry out the provisions of this subsection.

AN ACT OF JULY 5, 1946 (60 STAT. 440)

* * *

TITLE VII.--IMPORTATION FORBIDDEN OF GOODS BEARING INFRINGING MARKS OR NAMES

Sec. 42. [That] Except as provided in subsection (d) of section 526 of the Tariff Act of 1930, no article of imported merchandise which shall copy or simulate the name of any domestic manufacturer or trader located in any foreign country which, by treaty, convention, or law affords similar privileges to citizens of the United States, or which shall copy or simulate a trade-mark registered in accordance with the provisions of this Act or shall bear a name or mark calculated to induce the public to believe that the article is manufactured in the United States, or that it is manufactured in any foreign country or locality other than the country or locality in which it is in fact manufactured, shall be admitted to entry at any customhouse of the United States; * * *

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

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FOR IMMEDIATE RELEASE October 2, 1973

TREASURY ANNOUNCES TENTATIVE DISCONTINUANCE OF ANTIDUMPING INVESTIGATION ON MANDELIC ACID FROM THE UNITED KINGDOM

Assistant Secretary of the Treasury Edward L. Morgan announced today a tentative discontinuance on the investigation of mandelic acid from the United Kingdom under the Antidumping Act, 1921, as amended. This acid is used as a primary ingredient for a pharmaceutical drug called methenanine mandelate, a urinary disinfectant. Notice of this decision will appear in the Federal Register on October 3, 1973.

Comparison between the offered price and the adjusted weighted-average market price revealed the offered price was lower than the adjusted home market price of identical merchandise. However, formal assurances were received from the only known manufacturer of mandelic acid in the United Kingdom that it would make no future sales of mandelic acid at less than fair value within the meaning of the Act.

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

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FOR ADVANCE RELEASE IN P.M.'S October 5,1973

TREASURY'S ANNUAL AWARDS CEREMONY
HONORS OVER 150 EMPLOYEES

The Treasury Department honored over 150 employees for outstanding service and contributions at its annual awards ceremony today at the Departmental Auditorium in Washington. Acting Treasury Secretary William E. Simon presented the awards in the absence of Secretary George P. Shultz, who is out of the country.

In congratulating the recipients of the awards, in absentia, Secretary Shultz said: "One of the strengths of this Nation is the ability, ingenuity, and resourcefulness of the men and women who have chosen to devote their life to public service. And one of the particular strengths of the Treasury Department is the system that has been developed to insure that the ideas of our employees are put to use, and to insure that the achievements of our employees are recognized."

Among those recognized by the Department were:

--Seventeen persons, who received the exceptional service award, the highest award which may be recommended for

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presentation by the Secretary. The first woman Assistant General Counsel in the history of the Department, Charlotte Tuttle Lloyd, was one of the recipients.

--Twenty persons for the meritorious service award, the second highest award.

--Sixty-two employees for outstanding suggestions or services which effected significant monetary savings, increased efficiency, or improvement in Government operations. The highest individual award of $1,000 went to Robert N. Dyas, of the Office of the Regional Counsel, Internal Revenue Service, Chicago, Illinois.

--Twenty-one supervisors who encouraged employees contributions to efficiency and economy.

During the year, the Secretary conferred the Alexander Hamilton award on five of the highest ranking officials in the Department who demonstrated outstanding leadership. They were former Secretary John B. Connally, former Deputy Secretary Charls E. Walker, former General Counsel Samuel R. Pierce, Jr., former IRS Commissioner Johnnie M. Walters, and present Under Secretary for Monetary Affairs Paul A. Volcker.

In addition to the above, thirty persons were given special awards for excellence in furthering special government-wide programs, and twelve were given career service recognition for over 40 years of Federal service.

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The Bureau of the Mint received two Secretary's awards, one for excellence in improving communications and services to the public, and the other for the incentive awards program. The Bureau of Engraving and Printing also received a Secretary's award for the incentive awards program. The Bureau of Public Debt, the Office of the Treasurer of the United States and the Internal Revenue Service were also recipients of Secretary's awards.

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1973

Annual Awards Ceremony

October 5, 1973, 10:00 A.M.
Departmental Auditorium
Washington, D.C.

FOREWORD

It is with considerable pride that I offer my congratulations to all the Treasury employees being honored today at the annual Awards Ceremony.

One of the strengths of this Nation is the ability, ingenuity, and resourcefulness of the men and women who have chosen to devote their life to public service. And one of the particular strengths of the Treasury Department is the system that has been developed to insure that the ideas of our employees are put to use, and to insure that the achievements of our employees are recognized.

My congratulations to those who are being honored today, and a warm welcome to your families and your friends.

George P. Shultz

Secretary of the Treasury.

1973
PROGRAM
ANNUAL AWARDS CEREMONY
DEPARTMENT OF THE TREASURY

Music .... U.S. Marine Corps Band
Presentation of Colors .... Joint Armed Forces Color Detail
The National Anthem .... U.S. Marine Corps Band
Introductions .... Warren F. Brecht
Assistant Secretary for Administration
Remarks .... William E. Simon
Deputy Secretary of the Treasury
Announcing Award Recipients .... Esther C. Lawton
Acting Director of Personnel
Presentation of Awards .... William E. Simon
Deputy Secretary of the Treasury

- Employee Suggestions and Services
- Suggester-of-the-Year
- Awards to Supervisors
- Recognition for Special Government-Wide Programs
- Career Service Recognition (Washington, D.C. area)
- The Secretary's Awards to Bureaus
  - Performance Awards Program
  - Suggestion Awards Program
  - Improving Communications and Services to the Public
  - Cost Reduction and Management Improvement
  - Safety Program
- Meritorious Service Awards
- Exceptional Service Awards
- Alexander Hamilton Awards

Musical Selection .... U.S. Marine Corps Band

1973

ANNUAL AWARDS CEREMONY
DEPARTMENT OF THE TREASURY

PROGRAM COORDINATOR

Lorene Rueger
Office of Personnel
Office of the Secretary

TREASURY AWARDS COMMITTEE

Chairman

Esther C. Lawton
Acting Director of Personnel

Members

Donald L. E. Ritger
Acting Deputy General Counsel

James B. Clawson
Deputy Assistant Secretary for Enforcement, Tariff and Trade Affairs and Operations

David Mosso
Deputy Fiscal Assistant Secretary

John A. Hurley
Assistant Commissioner (Office of Administration)
Bureau of Customs

Joseph T. Davis
Acting Assistant Commissioner (Administration)
Internal Revenue Service

Arnold Bresnick
Assistant Director for Administration
Bureau of the Mint

Stanley N. Dunn
Chief, Office of Industrial Relations
Bureau of Engraving and Printing

Stanley D. Allen
Chief, Management Analysis Division
Office of Management and Organization

EMPLOYEE SUGGESTIONS AND SERVICES

Recognition by the Secretary of outstanding suggestions or exemplary services which served to effect significant monetary savings, increased efficiency, or improvements in Government operations.

Charles R. Aughinbaugh, Production Controller, Product Control Division, Bureau of Engraving and Printing

For proposing the use of a less expensive paper stock to print the Souvenir Cards for the U.S. Postal Service. Estimated savings—$20,925. Suggestion Award—$805.

Leila S. Brooks, Formerly Data Transcriber, Data Conversion and Accounting Division, Internal Revenue Service Center, Atlanta, Ga.

For suggesting a time-saving method of correcting information on the pre-addressed labels sent to taxpayers with their returns. Estimated savings—$13,563. Suggestion Award—$640.

Joseph R. Carlon, Special Agent, U.S. Secret Service, Los Angeles, Calif.

For conducting a number of extremely important and difficult criminal investigations which resulted in numerous arrests and the seizure of large sums in counterfeit notes. Special Achievement Award—$750.

Ernest M. Coscia, Chief, Supply, Printing and Services Branch, Office of the Comptroller of the Currency

For initiating and implementing innovative changes in office mailing procedures which resulted in significant savings. Estimated savings—$22,500. Suggestion Award—$815.

John W. Crittenden (Retired), Administrative Assistant, Branch Applications Section, Office of the Comptroller of the Currency

For consistently demonstrating superior competence, initiative and enthusiasm in assisting national banks in the establishment and/or relocation of branches, facilities and extensions. Special Achievement Award—$500.

James A. Curtin, Senior Program Analyst, Audit Division, National Office, Internal Revenue Service

For outstanding performance in coordinating the efforts of a task force to implement recommendations to restructure the organization of District Audit Divisions. Special Achievement Award—$500.

Cesario Diosdado, Formerly Senior Special Agent, U.S. Customs Service, San Ysidro, Calif.

For exceptional performance working undercover in a munitions export case resulting in the arrest of eight persons and the seizure of 13,500 pounds of C-4 explosives and a DC-4 aircraft. Special Achievement Award—$500.

Robert N. Dyas, Technical Advisor, Office of the Regional Counsel, Midwest Region, Internal Revenue Service, Chicago, Ill.

For exceptional service to the U.S. Attorney's Office for the Northern District of Illinois in connection with the successful prosecution of a major criminal tax case. Special Achievement Award—$1,000.

Anne C. Eckstein, Tax Examiner, Error Resolution Section, Input Perfection Branch, Processing Division, Internal Revenue Service Center, Kansas City, Mo.

For suggesting the use of stamps for labeling boxes of documents for retention, resulting in significant manhour savings and increased efficiency. Estimated savings—$12,702. Suggestion Award—$620.

John J. Fitzgibbons, Revenue Officer, Internal Revenue Service, Boston, Mass.

For suggesting that information on prior uncollectible tax accounts be transmitted to revenue officers at the same time that delinquent accounts are sent to the field for collection. Suggestion Award—$500.

David E. Gaston, Senior Attorney (Criminal Tax), Office of the Regional Counsel, Mid-Atlantic Region, Internal Revenue Service, Philadelphia, Pa.

For outstanding performance with respect to attorney training, legal review and handling of criminal tax cases, which contributed significantly to a record processing of criminal tax cases in the Mid-Atlantic Region. Special Achievement Award—$500.

Richard M. Hahn, Associate Chief Counsel (Technical), Office of the Chief Counsel, Internal Revenue Service

For the highly exemplary manner in which he has been discharging the duties and responsibilities of the position of Associate Chief Counsel (Technical) over the past year. Special Achievement Award—$500.

John W. Holt, Director, Refund Litigation Division, Office of the Chief Counsel, Internal Revenue Service

For the highly exemplary manner in which he has managed and directed the legal affairs and personnel of the Chief Counsel's Refund Litigation Division over the past year. Special Achievement Award—$500.

Leonard A. Johnson, Foreman, Cash Division, Metal Processing Branch, Melting Section, U.S. Assay Office, Bureau of the Mint, New York, N.Y.

For suggesting a simplified method of recovering the silver content of film ash sent by the Navy Department to the New York Assay Office, thus benefiting both the Bureau of the Mint and the Navy Department. Estimated savings—$15,449. Special Achievement Award—$690.

Joseph T. Kelly, Internal Revenue Agent, Reviewer, Audit Division, Internal Revenue Service, Booklyn, N.Y.

For suggesting a way of tracking subsequent year tax returns in pending criminal tax cases through District Intelligence Division computer controls, thus eliminating the maintenance of an Audit special suspense file. Estimated savings—$42,000. Suggestion Award—$900.

Michael H. Lane, Assistant Division Director, Law Enforcement Data Processing Division, U.S. Customs Service

For exemplary service to the Department in the development of the Treasury Enforcement Communications System. Special Achievement Award—$500.

Walter F. Lechowski, Customs Inspector, U.S. Customs Service, Buffalo, N.Y.

For exceptional contributions to the development of the "Land Vehicles Search Manual," a valuable source of information for every Customs officer. Special Achievement Award—$500.

Antonio Lonardo, Jr., Chief, Computer Operations Section, Internal Revenue Service Center, Andover, Mass.

For a shared suggestion to re-sort and print Tape Data Control Sheets into alpha block sequence and for two other adopted suggestions which contributed to the efficiency of the Center. Estimated savings—$13,781. Suggestion Awards—$600.

Royal E. Maiden, Jr. (Retired), Assistant Regional Counsel, Western Region, Internal Revenue Service, Los Angeles, Calif.

For an exceptional degree of competence and dedication displayed in the performance of his duties and responsibilities as an Attorney and as an Assistant Regional Counsel over the past 35 years. Special Achievement Award—$500.

Charles H. McEnerney, Jr., Associate Chief Counsel-Antitrust, Office of the Comptroller of the Currency

For outstanding dedication and superior performance in the preparation of several recent court cases. Special Achievement Award—$500.

Clare R. Miller, Tax Examiner, Adjustment Branch, Taxpayer Service Division, Mid-Atlantic Region, Internal Revenue Service Center, Philadelphia, Pa.

For suggesting that the Federal Tax Deposit filing requirement be deleted for all 1120S corporation filers, of which the majority are nontaxable, thus drastically reducing correspondence with taxpayers and mailing costs. Estimated savings—$20,000. Suggestion Award—$800.

Kathy Nolte, Clerk-Stenographer, U.S. Customs Service, Chicago, Ill.

For significant contributions to improving the procedure of receiving Classification and Value Inquiry Master Checklists. Estimated savings—$10,000. Suggestion Award—$500.

John J. O'Meara, Attorney-Adviser (General), Office of the Secretary

For outstanding service under great stress and for professional competence, skill, and extraordinary ability demonstrated in drafting regulations pursuant to the State and Local Fiscal Assistance Act of 1972. Special Achievement Award—$500.

Ronald W. Pfeifle, Director, Law Enforcement Data Processing Division, U.S. Customs Service, San Diego, Calif.

For exemplary accomplishments in the successful coordination and consolidation of selected Treasury law enforcement functions into one effective system. Special Achievement Award—$500.

John T. Rogers (Retired), Associate Chief Counsel (Litigation), Office of the Chief Counsel, Internal Revenue Service

For the excellent professional leadership, competence, and dedication he displayed while occupying a number of key executive positions within the Chief Counsel's Office over the past 19 years. Special Achievement Award—$500.

Richard C. Schwartz (Retired), Regional Counsel, Western Region, Internal Revenue Service, San Francisco, Calif.

For the exceptional degree of professional leadership, competence, and dedication he displayed while occupying a number of key executive positions within the Chief Counsel's Office over the past 23 years. Special Achievement Award—$500.

Herbert A. Seidman, Assistant Regional Counsel, Mid-Atlantic Region, Internal Revenue Service, Baltimore, Md.

For establishing, organizing and managing the Chief Counsel's Stabilization Division in a most outstanding manner during Phase II of the Economic Stabilization Program. Special Achievement Award—$500.

G. Jerry Shaw, Jr., General Attorney, General Legal Branch, Operations and Planning Division, Office of the Chief Counsel, Internal Revenue Service

For exceptional service as Counsel for the Bureau of the Mint in their unit representation case before the Department of Labor. Special Achievement Award—$700.

Elmer F. Shumaker (Retired), Senior National Bank Examiner, Office of the Comptroller of the Currency, Pittsburgh, Pa.

For initiative displayed in revising the procedures for reporting loan classifications in the report of examinations for national banks. Estimated savings—$12,310. Suggestion Award—$610.

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FREDRICK B. STROTHMAN, Technical Assistant to the Director, Operations and Planning Division, Office of the Chief Counsel, Internal Revenue Service

For the design, development and implementation of a Directives Management System for the Office of the Chief Counsel, Internal Revenue Service. Special Achievement Award—$500.

DAVID R. TRUE, Special Agent, Bureau of Alcohol, Tobacco and Firearms, St. Louis, Mo.

For displaying unusual initiative and originality, which have enabled him to pursue his assignments to highly successful conclusions. Special Achievement Award—$500.

CHARLES M. VAN BUREN, Chief, Records Management Branch and Bureau Records Officer, Office of the Comptroller of the Currency

For untiring efforts and ingenuity resulting in the destruction or retirement of several thousand cubic feet of unnecessary records. Special Achievement Award—$600.

JOHN J. WALALIS, III, Senior Tax Examiner, Internal Revenue Service Center, Andover, Mass.

For a shared suggestion to re-sort and print Tape Data Control Sheets into alpha block sequence and for a shared suggestion to prevent mixed data blocks from being processed to good tape. Total estimated savings—$32,255. Suggestion Awards—$705.

MICHAL LEE WALLACE, Formerly Data Transcriber, Data Conversion Branch, Data Conversion and Accounting Division, Internal Revenue Service, Austin, Tex.

For suggesting a computer program change which allows a simpler method of correcting information on the preaddressed labels sent to taxpayers with their returns. Estimated savings—$15,412. Suggestion Award—$680.

JACK L. WALTERS, Customs Inspector, U.S. Customs Service, San Ysidro, Calif.

For alertness and keen perception in finding over 8 pounds of heroin hidden in a secret compartment of an automobile and for the arrest of the driver for attempted smuggling. Special Achievement Award—$500.

Henry H. Washington, Formerly Senior Resident Agent, U.S. Customs Service, San Luis, Ariz.

For outstanding and exemplary handling of Operation CACTUS from its inception to its conclusion, resulting in 37 arrests and the seizure of 22 vehicles and large amounts of marihuana and heroin. Special Achievement Award—$500.

Victor G. Weeren, Operations Officer, U.S. Customs Service

For exemplary contributions to the design, testing and implementation of an innovative system for the inspection of large numbers of air passengers. Special Achievement Award—$500.

Homer Banks
Ray Ragsdale
Charles H. Zix

Internal Revenue Agents, Cincinnati District, Internal Revenue Service, Cincinnati, Ohio

For outstanding performance in assisting in the investigation of a complex tax case which resulted in additional federal income taxes of over $4 million found due, successful prosecution of tax evaders, and tightening of laws and regulations concerning savings and loans associations in two States. Group Special Achievement Award—$4,500.

Stanley P. Bobbie, Die Manufacturing Supervisor, U.S. Mint, Philadelphia, Pa.
John D. Jamieson (Retired), Special Mechanical Assistant
Louis F. Rhoads (Retired), Scale Mechanic Leader, U.S. Mint, Denver, Col.

For designing and constructing valuable production machinery for use at the Philadelphia Mint to meet the requirements of new coinage and medal programs. The addition of this equipment was vital to the success of these special numismatic programs. Group Special Achievement Award—$2,500.

Marelene Gentry, Supervisory Cash Clerk
Barbara E. Gray, Accounting Technician
Bettye C. Johnson, Tax Examiner
Judith E. Scarborough, Tax Examiner
Lola C. Tucker, Tax Examiner

Internal Revenue Service Center, Austin, Tex.

For designing, developing and writing the Integrated Data Retrieval System training courses which were used to train approximately 6,000 employees throughout the nation. Group Special Achievement Award—$2,250.

LORETTA P. ASHMORE, Quality Review Coordinator
JACK H. BOND, Acting Assistant Chief, Data Conversion Branch
GUY W. GIFFORD, Resident Programing Analyst
JERRY D. MAXWELL, Resident Programing Analyst
WILLIAM H. PRICE, Chief, Data Conversion Branch
GARY ROBINSON, Chief, Computer Branch
WAYNE R. ROSS, Assistant Chief, Data Conversion and Accounting Division, Internal Revenue Service Center, Austin, Tex.

For defining, developing and implementing a Quality Review System utilizing computer capabilities to evaluate the performance of data transcribers in Service Center operations. Estimated savings—$880,000. Group Special Achievement Award—$3,500.

CARL R. CROCE, Associate Attorney, Legislation and Regulations Division, Office of Chief Counsel
EDWARD J. MARTIN, Program Analyst, Planning and Development Branch, Taxpayer Service Division
RONALD L. MOORE, Supervising Tax Law Specialist, Individual Income Tax Branch, Income Tax Division
MARGARET M. RICHARDSON, Senior Attorney, Tax Court Litigation Division, Office of Chief Counsel
ROBERT L. SPATZ, Technical Assistant to the Director, Criminal Tax Division, Office of Chief Counsel
ROSS J. SUMMERS, Tax Research Officer, Research Division
THOMAS G. VITEZ, Tax Research Officer, Research Division Internal Revenue Service

For outstanding service as members of the Chief Counsel's Study Group to develop proposals for tax simplification in the form of recommended legislative changes and a new concept for the Form 1040. Group Special Achievement Award—$3,500.

SUGGESTER-OF-THE-YEAR

ANTONIO LONARDO, Jr., Chief, Computer Operations Section, Internal Revenue Service Center, Andover, Mass.

For his outstanding contributions to the Department's suggestion program over a period of 15 years as well as during fiscal year 1973.

SUPERVISOR OF THE SUGGESTER-OF-THE-YEAR

COSIMO A. PAROLISI, Chief, Computer Branch, Internal Revenue Service Center, Andover, Mass.

BUREAU SUGGESTERS-OF-THE-YEAR

CHARLES R. AUGHINBAUGH, Production Controller, Product and Control Division, Bureau of Engraving and Printing

ERNEST M. COSCIA, Chief, Supply, Printing and Services Branch, Office of the Comptroller of the Currency

DANIEL J. DEAN, Supply Technician, U.S. Secret Service

JOSEPH M. O'BRIEN, Administrative Officer, Bureau of Alcohol, Tobacco and Firearms, Philadelphia, Pa.

HELEN K. PRICE, Division of Disbursement, Bureau of Accounts, Austin, Tex.

SAM SARFATI, Fiscal Accounts Supervisor, Bureau of Customs, New York, N.Y.

AWARDS TO SUPERVISORS

Recognition by the Secretary of notable achievements by supervisors in encouraging employee contributions to efficiency and economy. These supervisors were selected from Bureau nominees after consideration of such factors as the size of groups supervised, the value of contributions, and the nature of action by the supervisor.

Robert Abramson, Supervisory Import Specialist, U.S. Customs Service, New Orleans, La.

For sincere dedication to duty and an exceptional leadership talent that has inspired maximum cooperation and production from employees in the Classification and Value Division of the New Orleans District.

Douglas D. Angle, Port Director, U.S. Customs Service, Brownsville, Tex.

For outstanding leadership, management ability, and exceptional character which have contributed to high employee morale and led to increased respect for the Customs Service at the Port of Brownsville.

Joyce A. Barbee, Assistant Director, Central Accounting Operations, Division of Government Financial Operations, Bureau of Accounts

For significant achievements in effective supervision as measured by increased productivity and quality improvements in the central accounting and reporting area and in increased timeliness of the related Government-wide financial statements.

Vincent J. Bartolillo, Jr., Chief, Control Branch, Check Accounting Division, Office of the Treasurer of the United States

For a rare selfless devotion to duty, added to a constant effort to achieve perfection both in his own work and in the work of the employees under his direction.

L. Paul Blackmer, Jr., Supervisory Auditor, Internal Audit Staff, Office of the Treasurer of the United States

For outstanding leadership and motivation of the professional audit staff through intensive performance appraisal and for development of leadership in others through delegation of authority and responsibility.

Raymond G. Bourassa, Foreman, Reproduction Branch, Printing and Reproduction Division, Office of Administrative Programs, Office of the Secretary

For imaginative management and supervision, enabling the office to meet unusual and stringent production deadlines with minimum overtime costs.

Joan K. Brickman, Senior Computer Specialist, Applications Improvement and Development Branch, ADP Services Division, Bureau of the Public Debt

For the leadership, enthusiasm, ingenuity, and dedication with which she inspired ADP personnel to complete the conversion of all public debt systems from a small- to a large-scale computer well within the established timetable, thereby contributing substantially to the efficiency and economy of the operations involved.

Salvatore DiPaola, Assistant Regional Director, Savings Bonds Division, New York, N.Y.

For outstanding leadership qualities and the ability to develop a high level of cooperation and efficiency in employees through instruction and counseling, thereby motivating them to achieve the objectives of the Savings Bonds Program.

Robert W. Dodson, Mail and File Supervisor, Mail and Files Unit, Search and File Maintenance Subunit, Bureau of the Public Debt, Chicago, Ill.

For superior skill in supervising employees responsible for maintaining correspondence files, unusual talents in counseling and assisting youth, and exemplary service in community affairs.

Amelia Eaton, Physical Science Administrator, Laboratory Division, U.S. Customs Service, New York, N.Y.

For outstanding leadership in encouraging and motivating employees to submit high quality suggestions, resulting in cost reduction and increased efficiency at the New York Customs Laboratory.

John C. Findley, Senior Claims Examiner, Financial Activities Branch, Check Claims Division, Office of the Treasurer of the United States

For dedicated and tireless energy in discharging his duties despite the marked increase in work volume without a compensating increase in personnel.

RONALD J. FRISCH, Chief, Audit Division, Internal Revenue Service, St. Louis District, Mo.

For significant achievements in motivating his employees through outstanding personal example and leadership.

EUGENE P. HARDESTY, Jr., Cabinet Maker-Foreman, Buildings Management Division, Office of Administrative Programs, Office of the Secretary

For innovative management and supervision which has resulted in the highest degree of craftsmanship by personnel he supervises.

LEO D. HOLLENBERG, Jr., Deputy Regional Administrator, Office of the Comptroller of the Currency, Los Angeles, Calif.

For continuously demonstrating outstanding technical competence, innovative planning, personal and professional concern for subordinates, and maintaining the highest standards of personnel development and training.

WALTER L. JORDAN, Deputy Assistant Comptroller, Finance and Management Information Staff, Division of Financial Management, Bureau of Accounts

For outstanding achievements and effective leadership in training and motivating employees resulting in increased production and improved employee morale.

JACK H. MALABY, Director, Administrative Services Division, Office of the Comptroller of the Currency

For continuously demonstrating outstanding skill and initiative in instituting procedures which have resulted in an overall improvement of the Administrative Services Division.

ELIZABETH M. MEYER, Chief, General Ledger Branch, Division of General Accounts, Office of the Treasurer of the United States

For achieving a high level of employee performance through outstanding supervisory skill, in maintaining the U.S. Treasurer's General Ledger and preparing the statement of U.S. Currency and Coin and the Treasurer's statement of accountability.

SADIE L. MITCHELL, Superintendent, Examining Division, Bureau of Engraving and Printing

For her dynamic leadership and supervision which motivated employees to work at peak efficiency, resulting in increased production.

WILLIAM J. QUIGLEY, Assistant Superintendent, Plate Printing Division, Bureau of Engraving and Printing

For outstanding personal leadership in promoting strong employee interest and active participation in the Incentive Awards Program, resulting in his employees making substantial contributions to increased efficiency and improved work operations.

LELIA E. WEAVER, Supervisory Personnel Management Specialist, Personnel Administration Staff, Bureau of Accounts

For outstanding supervisory leadership in instilling dedication, efficiency, and good morale in her staff, and for exemplary personal resourcefulness and dedication to the Federal Service.

BUSTER T. WILLIAMS, Program Manager, Chief, Data Conversion Branch, Data Conversion and Accounting Division, Internal Revenue Service Center, Ogden, Utah

For the spirit and dedication which have been consistently demonstrated to encourage and reward employees who find improved ways to perform their operations.

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SPECIAL AWARDS FOR EXCELLENCE IN FURTHERING SPECIAL GOVERNMENT-WIDE PROGRAMS

Recognition by the Secretary for outstanding contributions to the furtherance of a number of Government-wide programs in which the President has asked for special attention and extra effort from the executive branch of the Government.

LAVERNE AANERUD, Supervisory Securities Examiner, Correspondence and Ruling Unit, Division of Loans and Currency, Bureau of the Public Debt, Chicago, Ill.

For excellence in directing technical operations concerned with savings bonds in such a manner as to insure prompt and efficient service to bondowners, and for the successful accomplishment of technical training programs for personnel of the Bureau and the Federal Reserve banks dealing with the public on savings bonds matters.

RONALD BREDEHOFT, Computer Systems Analyst, Management Services Branch, Division of Disbursement, Bureau of Accounts

For his contributions to cost reduction and management improvement through outstanding leadership in improving the application of electronic data processing in the centralized disbursing system.

FRED R. BOYETT, Regional Commissioner of Customs, New York, N.Y.

Recipient of the Presidential Management Improvement Award for reorganizing Customs Region II; resulting in more responsive and uniform treatment of and service to the public.

T. GUY BROWN, State Director, U.S. Savings Bonds Division, Dallas, Tex.

For his strong personal interest and effectiveness in promoting the Equal Employment Opportunity Program in the areas of recruitment and upward mobility for minority groups and women.

Irene F. Carpenter, Secretary (Stenography), U.S. Savings Bonds Division, Los Angeles, Calif.

For exceptional ability and effectiveness in communicating, counseling and assisting Savings Bonds owners and the general public on Savings Bonds matters.

Michael G. Contard, Operations Officer, U.S. Customs Service, New York, N.Y.

For improving communication and service to the public by the institution of a cargo security program in the New York Region and other areas throughout the United States.

G. R. Dickerson, Assistant Commissioner of Customs (Operations)

Recipient of Presidential Management Improvement Award for reorganizing Customs Region II; resulting in more responsive and uniform treatment of and service to the public.

Sondra L. Fryrear, Clerk-Stenographer, U.S. Savings Bonds Division, Tampa, Fla.

For exceptional ability and effectiveness in communicating, counseling and assisting Savings Bonds owners and the general public on Savings Bonds matters.

Nancy J. Gipson, Supervisory Personnel Staffing Specialist, Internal Revenue Service Center, Fresno, Calif.

For outstanding accomplishments in hiring the handicapped and Vietnam veterans.

Cameron C. Haynes, Equal Employment Opportunity Officer, U.S. Customs Service, New York, N.Y.

For outstanding success in conducting a vigorous, effective, and meaningful equal employment opportunity program in the New York Region.

Mildred Johnson, Personnel Management Specialist, U.S. Customs Service, Chicago, Ill.

For special efforts in the recruitment, selection, placement, orientation, and counseling of disadvantaged youth in addition to her regularly assigned duties.

Eugene R. Kellaher, Assistant Chief, Financial Activities Branch, Check Claims Division, Office of the Treasurer of the United States

For significant contributions to management improvements through increased production, resulting in prompt service to the public relating to check claims operations.

Arthur H. Klotz (Retired), Formerly Director, Appellate Division, Internal Revenue Service

Recipient of Presidential Management Improvement Certificate for excellence in improvement of Government operations and outstanding leadership in initiating, developing, and implementing innovative plans, programs, and procedures.

Ocie R. Krebs, Head, Employee Recognition Section, Office of Industrial Relations, Bureau of Engraving and Printing

For effective leadership in promoting and carrying out an on-going enthusiastic employee suggestion program which has been of inestimable value in reducing costs and improving operations in the Bureau of Engraving and Printing.

Johnnie L. Locklear, Head, Career Development Branch, Office of Industrial Relations, Bureau of Engraving and Printing

For his initiative and accomplishments in establishing and carrying out very comprehensive and well-rounded training and education programs to qualify the many disadvantaged employees of the Bureau for advancement.

Patricia J. Loustalot, Writer-Editor, Office of Public Affairs, U.S. Secret Service

For excellence in modernizing Secret Service publications, improving their usefulness and broadening their scope, thereby helping to provide better communication to the public.

John B. Meluzio, Management Analysis Officer, U.S. Customs Service, New York, N.Y.

For his noteworthy accomplishments in spearheading cost reduction and management improvement programs and his tireless efforts in search of greater economy and efficiency in operations.

Andrew J. O'Donnell, Jr., District Director, Internal Revenue Service, Jacksonville, Fla.

For outstanding managerial effectiveness in the direction of the Birmingham and later the Jacksonville Districts and for distinctive service in such areas as law enforcement, employee development, labor relations, and communication with the public.

James A. O'Hara, District Director, Internal Revenue Service, Nashville, Tenn.

For outstanding contributions to equal employment in Government and community through excellence of leadership, involvement, and commitment in behalf of the Department.

Gloria Ohliger, Head, Public Information Division, Office of Public Services, Bureau of the Mint

For excellence in improving communication and service to the public by her effective and imaginative efforts in planning, developing, and designing public relations programs to assist the Mint in accomplishing specific goals.

Mary K. Rose, Personnel Officer, Bureau of the Public Debt, Chicago, Ill.

For effective leadership in special programs which have provided employment, training, and recognition for minority group members and disadvantaged youth.

Leona J. Rumsey, Equal Employment Opportunity Specialist, Office of Industrial Relations, Bureau of Engraving and Printing

For superior contributions to the Federal Equal Employment Opportunity Program in the Bureau of Engraving and Printing and to the community through her involvement, sensitivity, perseverence, and empathy.

Howard W. Seaton, Superintendent, Management Services Division, Bureau of Engraving and Printing

For greatly improving service to the public by developing a highly effective system to handle numerous orders for philatelic and numismatic cards and other engravings printed by the Bureau.

John R. Sherrock, Chief, Information and Service Branch (Stabilization), Internal Revenue Service, New York, N.Y.

For displaying outstanding leadership in furthering such goals of the Federal Service as cost reduction, employment of youth, and promotion of equal employment opportunity.

Dorothy Stackhouse, Securities Transaction Specialist, Trust Branch, Securities Division, Office of the Treasurer of the United States

For outstanding service in assisting the public on matters concerning their transactions in U.S. Savings Bonds and other Government securities.

Charles M. Van Horn, Regional Administrator of National Banks, Second National Bank Region, Office of the Comptroller of the Currency, New York, N.Y.

For distinguished service in implementation of the equal employment program and for achieving results far superior to any other region.

Richard C. Voskuil, District Director, Internal Revenue Service, St. Paul, Minn.

For significant contributions to the equal employment opportunity program through personal involvement, outstanding supervision, and motivation of others.

Dorothy Watt, Supervisory Securities Examiner, Examination and Retirement Unit, Division of Loans and Currency, Bureau of the Public Debt, Chicago, Ill.

For excellence in directing technical operations concerned with savings bonds in such a manner as to insure prompt and efficient service to bondowners, and for the successful accomplishment of technical training programs for personnel of the Bureau and the Federal Reserve banks dealing with the public on savings bonds matters.

Daniel Lee, Administrative Officer

George Frycek, Management Analyst
U.S. Customs Service, Chicago, Ill.

For their contributions in formulating a successful cost reduction program in the Chicago Region which resulted in the elimination of overtime expenditures and increased production.

CAREER SERVICE RECOGNITION

Recognition by the Secretary of employees in the Washington, D.C. area who attained 50, 45, or 40 years of Federal service during fiscal year 1973.

50 Years of Federal Service

Edward Ferneyhough (Retired)	Office of the Treasurer of the United States

45 Years of Federal Service

John W. Crittenden (Retired)	Office of the Comptroller of the Currency

40 Years of Federal Service

Alton Beavers (Retired)	Internal Revenue Service
Gideon A. Cox (41) (Retired)	Savings Bonds Division
William L. Jefferson	Office of the Comptroller of the Currency
Harold B. Master (42)	Savings Bonds Division
Lucy T. Morrison	Internal Revenue Service
Hubert D. Neal	Office of the Secretary
Lutheran W. Smith	Internal Revenue Service
Anna M. Snoddy	Office of the Comptroller of the Currency
Eleanor R. Wagner	Office of the Comptroller of the Currency
James H. Wright	Office of the Comptroller of the Currency

THE SECRETARY'S ANNUAL AWARDS

The Secretary of the Treasury presents honorary awards each year to recognize bureaus for outstanding performance in a number of areas.

SECRETARY'S AWARD FOR INCENTIVE AWARDS PROGRAM (PERFORMANCE)

Bureau of Engraving and Printing

For outstanding overall results in effectively recognizing employee performance which significantly exceeded normal job requirements. Over 24 percent of all personnel of the Bureau received cash awards or high quality pay increases, and tangible benefits from services recognized averaged over $4,000 per 100 employees.

SECRETARY'S AWARD FOR INCENTIVE AWARDS PROGRAM (SUGGESTIONS)

Bureau of the Mint

For the best overall results in the suggestion program during fiscal year 1973. For each 100 employees on its rolls the Bureau had almost five adopted suggestions and estimated savings of $1,720.

SECRETARY'S AWARD FOR EXCELLENCE IN IMPROVING COMMUNICATIONS AND SERVICES TO THE PUBLIC

Bureau of the Mint

For service to the public through new and enlarged programs designed to promote and disseminate information about the operations of the Mint, its long history and the availability of special coins and national medals.

SECRETARY'S AWARD FOR SIGNIFICANT ACCOMPLISHMENT IN THE COST REDUCTION AND MANAGEMENT IMPROVEMENT PROGRAM.

Bureau of the Public Debt

For important contributions of manpower, materiel and talents in the establishment of a departmental computer center. As a result, a wider range of data processing services will be available to offices throughout Treasury, in many instances at significantly lower cost.

SECRETARY'S AWARD FOR SAFETY

Internal Revenue Service

For showing the greatest reduction in the frequency of disabling injuries over the preceding 3-year average for bureaus with over 1,800 personnel. The Service reduced its rate to 1.5 per million man-hours worked, a reduction of 31.8 percent of the previous 3-year average.

Office of the Treasurer of the United States

For showing the greatest reduction in the frequency of disabling injuries over the preceding 3-year average for bureaus with under 1,800 personnel. The Office reduced its rate to 0.5 injuries per million man-hours worked, a reduction of 58.3 percent of the previous 3-year average.

MERITORIOUS SERVICE AWARDS

The Meritorious Service Award is next to the highest which may be recommended for presentation by the Secretary. It is conferred on employees who render meritorious service within or beyond their required duties.

Jesse L. Adams, Deputy National Director, U.S. Savings Bonds Division

For an outstanding ability to work with and elicit cooperation from volunteers, the media, business executives, bankers, and organized groups; for expert understanding and introduction of modern sales techniques; and for his consideration of others and devotion to the task at hand.

Morton Bach, Special Assistant to the Director (International Affairs), Office of Law Enforcement

For extraordinary performance in advancing Treasury's objectives for international programs to combat trafficking and smuggling of illicit narcotics and dangerous drugs; for his broad knowledge of finance, international operations, and criminal manipulations; and for his keen judgment, tact, and negotiating competence.

Steve L. Comings, Comptroller, Division of Financial Management, Bureau of Accounts

For exemplary contributions to the financial management system of the Bureau of Accounts and for outstanding participation in improving Government-wide financial systems.

Henry C. DeSeguirant, Assistant Director of Personnel (Employment), Office of the Secretary

For demonstrating unusual competence and initiative in providing employment leadership and service to the Department despite a rapid proliferation of program responsibilities.

Robert G. Efteland, Assistant to the Director (International Affairs), Office of Law Enforcement, and Deputy Director, Consolidated Federal Law Enforcement Training Center

For sustained exemplary service and a high level of technical ability, initiative, judgment, tact, and versatility which he displayed in various difficult assignments relating to law enforcement training and administration.

Seymour Fiekowsky, Chief, Business Taxation Staff, Office of the Assistant Secretary for Tax Policy

For his highly innovative contributions to the development and implementation of the Asset Depreciation Range System as a stimulus to economic growth and for major contributions to efficient and equitable tax administration.

Kenneth W. Leaf, Chief National Bank Examiner, Office of the Comptroller of the Currency

For his administrative ability and professional expertise which have been instrumental in formulating and maintaining unusually high standards of bank supervision in four national banking regions that contain some of the Nation's most complex financial centers and most active areas of economic growth.

Joseph G. Lutz, Regional Administrator of National Banks, Seventh National Bank Region, Office of the Comptroller of the Currency

For sustained superior performance in formulating and maintaining unusually high standards of bank supervision of 515 national banks with assets of $35 billion and for developing a staff of highly trained examiners by skillful administration and technical supervision.

James W. Marvin, Regional Director, Penn-Jersey Region, U.S. Savings Bonds Division

For outstanding leadership and unusual ability to transmit his enthusiasm for the Savings Bonds Program to volunteers and paid staff inspiring them to continually accomplish record bond sales.

Alex P. Mathers (Retired), Formerly Chief, Scientific Services Division, Bureau of Alcohol, Tobacco and Firearms

For outstanding scientific leadership to the Alcohol Tax Unit and its successors and for his pioneering research in technical procedures to assist in criminal prosecution which earned him national recognition.

Walter J. McDonald, Chief, Mobilization Planning Staff, Office of Management and Organization, Office of the Secretary

For outstanding contributions to the Emergency Preparedness Program and successfully undertaking a wide range of management studies and assignments requiring exceptional versatility and a capacity for innovative problem solving.

Jerry L. Oppenheimer, Formerly Deputy Tax Legislative Counsel, Office of the Secretary

For his leading role in the development of the Tax Reform Act of 1969 and the Revenue Act of 1971 as well as the formulation of many major regulations implementing those acts and other provisions of the tax law.

Robert Pacheco, Director, Chicago Disbursing Center, Bureau of Accounts, Chicago, Ill.

For rendering outstanding service and demonstrating sustained resourceful leadership in managing domestic Treasury disbursing services to Federal agencies and check recipients at substantial annual savings.

Martin R. Pollner, Formerly Deputy Assistant Secretary for Law Enforcement and Director, Office of Law Enforcement, Office of the Secretary

For exemplary leadership, perceptive advice and innovative contributions to Treasury law enforcement.

Frank W. Rhea, Facilities Project Manager (General Engineer), Bureau of the Mint

For outstandingly adept management in the restoration and renovation activities of the historic Old Mint Building in San Francisco.

Dorothy M. Sparks (Retired), Formerly Management Analyst, Office of Communications and Paperwork Management, Office of Administrative Programs, Office of the Secretary

For exceptional contributions to paperwork management which will have lasting benefits to the Department of the Treasury and to all of the U.S. Government.

Paul H. Taylor, Deputy Director, Division of Government Financial Operations, Bureau of Accounts

For outstanding managerial ability in directing the acceleration of major Government-wide financial reports and exceptional technical competence as principal advisor to the Fiscal Assistant Secretary on investment matters.

John R. Thomas, Regional Administrator of National Banks, Twelfth National Bank Region, Office of the Comptroller of the Currency

For his technical competence and managerial expertise in organizing and directing the Twelfth National Bank Region.

John L. West (Retired), Formerly Deputy Director, Bureau of Alcohol, Tobacco and Firearms

For outstanding leadership and initiative in establishing management practices and assembling a headquarters staff to meet the challenges involved in the transition from a Division of the Internal Revenue Service to a new and independent Bureau of the Department.

Leo W. Zajac, Director, Division of ADP Services, Bureau of the Public Debt

For his managerial skill, technical competence, and outstanding leadership which have contributed substantially to increased efficiency of systems, programs and operations and have motivated employees to achieve and sustain high levels of productivity.

EXCEPTIONAL SERVICE AWARDS

This is the highest award which may be recommended for presentation by the Secretary. The award is conferred on employees who distinguish themselves by exceptional service within or beyond their required duties.

RICHARD V. ADAMS, Formerly Special Assistant to the Secretary for Debt Management

For exemplary performance in the formulation and evolution of policies and programs designed to enhance the efficiency and coordination of the Government's financing activities.

WILLIAM B. CAMP (Retired), Formerly Comptroller of the Currency

For outstanding competence in bettering national banking policies and practices, thus benefiting the banking industry, the general economy and the public.

ROBERT T. COLE, Formerly International Tax Counsel, Office of the Secretary

For his leadership in the development of international tax policy and the negotiation of U.S. tax treaties with other nations.

WILLIAM P. CREWE, Formerly Director, Operations and Planning Division, Office of the Chief Counsel, Internal Revenue Service

For exceptional legal, managerial and executive ability displayed while occupying a number of very responsible positions within the Office of the Chief Counsel.

EDWARD E. DOUGHERTY (Retired), Formerly Chief Protective Programs Branch, Facilities Management Division, Internal Revenue Service

For consistently distinguished service to the Department and exceptional contributions that have improved the safety and security of people and facilities within the Internal Revenue Service.

EDWARD J. GANNON, Formerly Executive Assistant to the Deputy Secretary

For distinguished service as an aide to three Secretaries and as an Executive Assistant to the Deputy Secretary and for his effective management of numerous projects on behalf of the Treasury and the Administration.

WILLIAM F. HAUSMAN, Director, Office of Operations, Office of the Assistant Secretary for Enforcement, Tariff and Trade Affairs and Operations

For his outstanding contribution to the successful accomplishment of the missions assigned to the Office of the Assistant Secretary and for the stimulation and guidance he has provided for the initiation and supervision of a number of critical programs and projects.

LEE H. HENKLE, Jr. (Retired), Formerly Chief Counsel, Internal Revenue Service

For exceptional and dedicated service especially in connection with organizing the Stabilization Activity within the Chief Counsel's Office.

ALVIN M. KELLEY, Director, Cleveland District, Internal Revenue Service

For consistently distinguished service to the Department and many exceptional contributions to the improvement of executive management in the Internal Revenue Service, thus reflecting great credit on the Department and enhancing the integrity and professionalism of the Internal Revenue Service.

CHARLOTTE T. LLOYD (Retired), Formerly Assistant General Counsel

For her professional competence, personal integrity and exceptional achievements during her tenure as the first woman Assistant General Counsel in the history of the Department.

HAROLD B. MASTER, Coordinator for Banking and Volunteer Activities, U.S. Savings Bonds Division

For his dedication to duty, outstanding performance, and unselfish contribution of himself to the betterment of the Savings Bonds Division.

Robert V. McIntyre (Retired), Formerly Special Assistant to the Assistant Secretary for Enforcement, Tariff and Trade Affairs and Operations

For distinguished service to the Department and to the U.S. Government as Special Assistant to the Assistant Secretary and as first U.S. representative to the Customs Cooperation Council.

Edwin F. Rains, (Retired) Deputy Commissioner of Customs

For his major role in developing special programs to respond to the increasing demands placed upon the Customs Service, especially in the areas of tariff regulations and foreign trade, and in the development of regulations to expedite the payment of duties.

John T. Rogers (Retired), Associate Chief Counsel (Litigation), Internal Revenue Service

For significant contributions toward the efficient planning and directing of the policies and programs pertaining to IRS litigation, especially in the Tax Court litigation area, and for outstanding leadership in establishing and sustaining the high standards of the Chief Counsel's Office.

Donald C. Tolson, Deputy Director, Bureau of Engraving and Printing

For his comprehensive knowledge of every facet of operations coupled with an innate capability for vigorous, imaginative leadership which have made him uniquely effective in the full range of the Bureau's top management requirements.

Edward J. Widmayer, Director, Office of Budget and Finance, Office of the Secretary

For extraordinary leadership in the budget formulation and presentation process for the Department, while jointly involved with other agencies of the Government on several massive national programs.

Thomas J. Winston, Jr., Chief Counsel, Bureau of the Public Debt

For his outstanding ability in providing legal counsel to Treasury officials on a wide range of highly complex matters arising from the management and administration of the public debt.

ALEXANDER HAMILTON AWARDS

This award is conferred by the Secretary to individuals personally designated by him to be so honored. It is generally restricted to the highest officials of the Department who have worked closely with the Secretary for a substantial period of time and who have demonstrated outstanding leadership during that period.

JOHN B. CONNALLY, Formerly Secretary of the Treasury

For distinguished leadership as Secretary of the Treasury from February 1971 to June 1972.

SAMUEL R. PIERCE, Jr., Formerly General Counsel

For distinguished service as lawyer, administrator, and adviser to three Secretaries of the Treasury and for outstanding contributions to significant Administration programs.

PAUL A. VOLCKER, Under Secretary for Monetary Affairs

For exceptional service for more than 4 years as overseer of the Government's financing operations and as the architect and negotiator of U.S. international monetary initiatives.

CHARLS E. WALKER, Formerly Deputy Secretary of the Treasury

For distinctive leadership to the Department as the first Deputy Secretary of the Treasury and prior to that as Under Secretary.

JOHNNIE M. WALTERS, Formerly Commissioner of Internal Revenue

For his drive in speeding up and revitalizing the work of the Internal Revenue Service and his special concern for the rights of taxpayers.

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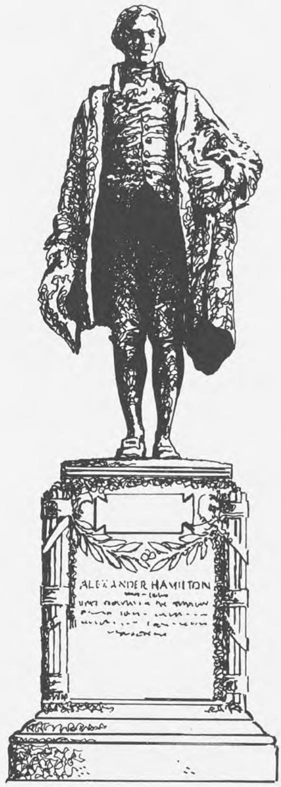

ALEXANDER HAMILTON
First Secretary of the Treasury

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

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FOR RELEASE 6:30 P.M. October 3, 1974

RESULTS OF TREASURY'S 294-DAY BILL AUCTION

Tenders for $1.8 billion of 294-day Treasury bills to be dated October 9, 1973, and to mature July 30, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS: (Excepting 4 tenders totaling $455,000)

High	- 93.780	Equivalent annual rate 7.616%	
Low	- 93.678	Equivalent annual rate 7.741%	
Average	- 93.710	Equivalent annual rate 7.702%	1/

Tenders at the low price were allotted 19%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	
Boston	$ 165,205,000	$ 125,405,000	
New York	2,390,525,000	824,275,000	
Philadelphia	121,060,000	36,060,000	
Cleveland	46,025,000	37,525,000	
Richmond	26,295,000	14,295,000	
Atlanta	13,625,000	9,625,000	
Chicago	561,845,000	359,645,000	
St. Louis	24,710,000	16,110,000	
Minneapolis	427,545,000	241,945,000	
Kansas City	80,920,000	74,020,000	
Dallas	6,020,000	3,620,000	
San Francisco	341,495,000	57,495,000	
TOTALS	$4,205,270,000	$1,800,020,000	2/

1/ This is on a bank discount basis. The equivalent coupon issue yield is 8.21%.

2/ Includes $ 95,050,000 noncompetitive tenders accepted at the average price.

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FOR IMMEDIATE RELEASE October 4, 1973

TREASURY ANNOUNCES TENTATIVE DISCONTINUANCE OF ANTIDUMPING INVESTIGATION ON MANDELIC ACID FROM JAPAN

Assistant Secretary of the Treasury Edward L. Morgan announced today a tentative discontinuance on the investigation of mandelic acid from Japan under the Antidumping Act, 1921, as amended. This acid is used as a primary ingredient for a pharmaceutical drug called methenanine mandelate, a urinary disinfectant. Notice of this decision will appear in the Federal Register of October 5, 1973.

An offered price was used in the fair value comparison because actual sales to the United States were so small as to be de minimis. Comparison between the price offered to the U.S. purchaser and the adjusted home market price revealed that the offer was lower. However, formal assurances were received from the only known manufacturer of mandelic acid in Japan that it would make no sales of mandelic acid at less than fair value within the meaning of the Act.

# # #

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

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FOR INFORMATION CALL (202) 634-5248

FOR RELEASE FRIDAY, OCTOBER 5, 1973: A.M.

REVENUE SHARING PAYMENTS BEGIN
FOR FISCAL YEAR 1974

More than 28,000 states, counties, cities and towns will be sent checks today totalling $1.4 billion, as the U. S. Treasury Department begins to distribute fiscal year 1974 general revenue sharing funds.

Payments being mailed today bring to $9.52 billion the amount the federal government has distributed since President Nixon signed the general revenue sharing Act last year. The law authorizes distribution of $30.2 billion in five years.

Checks for another $119 million will be mailed later to 9,256 local governments whose required reports were not received by the Office of Revenue Sharing before September 25. The first special payment to thousands of late filers will be mailed October 19.

"Planned Use and Actual Use Reports are required by law. Payments cannot be made until these brief reports have been filed," Graham W. Watt, Director of Treasury's Office of Revenue Sharing announced today.

Watt said that three simple reports are involved. One is a Planned Use Report which was due June 20th, outlining the plans of states and local governments for spending revenue sharing funds distributed for the first six months of 1973.

A second form, the Actual Use Report, was required to be filed by September 1 to show how each recipient spent all funds paid under revenue sharing through June 30, 1973.

Another Planned Use Report, covering plans for spending fiscal year 1974 funds, was due September 14.

Each report must be published locally in a newspaper of general circulation. Congress put the publication requirement in the law as a way to provide citizens with information and to encourage broader participation in decision-making regarding the uses of the funds by local and state governments.

A telegram and a letter were sent to each of the 9,256 local governments whose checks will be delayed. Telegrams advised that the quarterly payment would be delayed because one or more of the required reports had not been received by the Office of Revenue Sharing. The letters specified which reports were missing and provided instructions about how to request replacement forms. Governments were advised that a special payment was being arranged to accommodate the late filers.

"Hundreds of late reports are coming in daily," Watt said. "They were delayed for a variety of reasons according to the local officials with whom we've talked: some forms were inadvertently set aside in the recipients' offices, some were lost in the mail and had to be replaced, and some were held back deliberately so as to include more information," he said.

The reporting requirement is one of very few obligations on recipients of general revenue sharing money. The law also requires that certain simple accounting procedures must be followed. Governments may not use shared revenues to match other Federal funds or in discriminatory activities. They must observe Davis-Bacon Act standards under certain circumstances, as well.

"In almost a year of operation, the more than 38,000 general purpose governments that receive this money, have had little difficulty understanding the program and complying with its requirements," Graham Watt said.

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WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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TRANSCRIPT OF PRESS CONFERENCE OF
SECRETARY GEORGE P. SHULTZ
AT MOSCOW, WEDNESDAY, OCTOBER 3, 1973

JOSEPH A. LOFTUS: We have an agreement with the Russians that those papers that have been distributed to you will not be transmitted until 1:00. Can you manage, as I say, to keep our part of the bargain?

SECRETARY SHULTZ: Mr. Patolichev and I as the Co-Chairmen of the Joint Committee have just signed the minutes of the sessions that we've had here and then witnessed the opening of a new and expanded commercial office. I think both of these events symbolize the progress made here this week in terms of the various substantive things that were discussed that represent actions of one kind or another, and the appearance physically in concrete terms of a facility that will help to expand the trading relationship between the two countries.

I certainly regard the visits here as very constructive and helpful in the development of our economic relationships and of course these contribute to the relationships more broadly between the Soviet Union and the U.S. I think you have received a copy Joe mentioned of the joint statement, which is sort of a summary of the minutes and a record of who-all was involved. And also of the people seen by members of our delegation in addition to those who were officially members of the commission so that you get an idea of the scope of the activities of the American delegation here. I won't try to summarize all of that but will go immediately to your questions.

Q: Mr. Shultz, you spent four hours approximately with senior Soviet leaders and we know absolutely nothing about what passed. Can you give us any hint of what you talked about and what....?

A: Well, the discussions were on Monday evening with General Secretary Brezhnev, and on Tuesday afternoon with Chairman Kosygin and I would say that there was some overlap between the two and both, of course, dwelt on the problems of economics and trade. There was also discussion, particularly with Kosygin and some other Soviet officials. They were interested in the events in Nairobi, the international monetary development, things of that kind. So we had a sort of general discussion of world economic conditions, and of course a great variety of aspects of those things that affect the relationship on economics and trade between the two countries. Certainly the question of our present discriminatory tariffs against Soviet goods was raised and we discussed that problem that represents one of the problems that we have which we want to resolve that came up as well as other issues.

Q: Mr. Secretary, can you tell us how they reacted to the likelihood that Congress this year is going to block again the most favored nation?

A: Well, as I have said to my people, including them, it is difficult to predict exactly when, let alone exactly what, the Congress will take action on. On almost any matter Congress operates on its own terms and I wouldn't predict that there will be definitive action during this year nor I wouldn't say that there won't be, so I wouldn't predict that, I know that my expectation is that the trade bill will be brought out onto the House floor probably sometime in October and I would expect that it will not finally be voted in terms of a comprehensible bill until sometime perhaps in February or in the spring sometime or something on that order. Now what it will contain in terms of the most-favored nation or the problem of discrimination in tariffs against Soviet goods and the goods of other non-market economies remains to be seen and the President's position on that, which I certainly support, is that we should have authority, either in that bill or separately to grant this condition which we grant to other countries with whom we have substantial trade.

Q: Mr. Shultz, what was.... reaction to the point you just made, that you weren't sure what was going to happen, what was their reaction when you spelled that out to them?

A: Well, I think that you have to ask the members of the Soviet delegation for their reaction, they will speak for themselves. I always find it a bad practice to try to speak for other people. I can speak for myself to a degree, and if I'm lucky, for the Administration. (Laughter), but I wouldn't want to speak for them.

Q: Mr. Shultz, we know that the final settlement on the Lend-Lease Bill is being held up by the action in Congress on the most favored nation. Are any other elements of the trade package with the Soviets being blocked because Congress hasn't passed MFN?

A: Well, the whole agreement, as I understand it, can't come into being literally until the various conditions are satisfied and the Lend-Lease part is one of the parts that has money connected with it that is obviously held until all parts of the bargain, including the MFN part, can be granted. Of course, we have seen a very substantial increase in trade over the past three years from total turnover of about $200 million in 1971 to about $600 million or a little over that in 1972, and well, we don't know about 1973 fully yet, but it's not hard to project on the order to say, $1½ billion or something on that order, I think I'm correct in that interpretation of the agreement.

Q: Did you discuss the Jewish question with the Soviet leaders?

A: Well, it has come up and naturally, in explaining and trying to give an understanding of what it is that is bothering people in our Congress one tries to explain that, but this is not by way of any effort on my part to try to tell the Soviets how to run their internal affairs, but by way of explanation of what is going on in our country.

Q. Mr. Shultz, there is some feeling apparently in Washington that one of the problems holding up the financing of trade is information, access to information, to the bankers in the U.S. and the Export-Import Bank on everything, from balance of payments to gas reserves, oil reserves and so forth in Siberia. My question is this -- did the subject of access to information or having to break down secrecy barriers come up in your discussion, and if so how were they handled?

A. Well, that is a subject that is continuously discussed, project by project, obviously, this is, before you agree on a project you have to know about it, what it is, and how much the costs are, and what the prices are going to be, and so on. So, there has to be an extensive development of information on a particular project. I believe the aspects of this question have received more governmental attention lately and are the questions of sort of the overall flow of trade and credit and reserves and things of that kind. Now we discussed all of those matters and I don't have any concrete explicit thing to report other than to say that I think we have a better understanding of what is needed, why it is needed, and I think we have the basis for progressing on this issue. Obviously, if we are to have trading arrangements on projects of the size of some of those that are under exploration now, there is a great deal of information that everybody will want to have to be sure that those projects stand on a sound economic foundation.

Q. You then in other words would share the point of view of several bankers, David Rockefeller in particular. He has indicated that it would be necessary to have access to information before these projects are actually undertaken.

A. Well, naturally, on individual projects, people need to know what is going on in the project, and there is not really all that much disagreement on that point. On the North Star gas project for example, we now have American engineers on the ground and they're making their own examination in sort of engineering terms which will presumably form the basis for a better estimate of costs on their part. So that's an example of the kind of addition to information that is going to be a continuous flow, I am sure, as these projects develop and as trade expands.

Q. Mr. Secretary, since you prefer to let the Russians speak for themselves as far as their reaction to the possibility of MFN not being granted, what is your feeling about the effect on U.S.-Soviet trade and economic relations in general, if, as seems likely, MFN is not granted?

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A. Well, let me first ask you, if I could, to take out of your question "as seems likely". There is that feeling -- the Administration's point of view is very clear, the President's point of view -- that we believe that this is something that we should do and we intend to work at it and we will continue to work on it. Now, as far as why we think it is important not only to deliver on a piece in an agreement that was signed between the President and General Secretary Brezhnev. It is important, because, over any period of time, if we insist on making our consumers pay higher prices by quite a lot because of the higher tariffs exacted on soviet goods than on other goods, then that's going to limit the scope of imports to the U.S. from the Soviet Union and thereby limit, and eventually severely, the ability for trade to expand between these two countries. Now, presumably in the long run, with respect to any country, we export in order to import. It's because there are things that we want to import that we export. That's what trade is about. So, if we're going to have trade, at the same time to stand there and say "no" we're not going to take your imports," it's kind of ridiculous. So I think the question is not some sort of technical thing about MFN, it's a question about whether or not we intend to have an expanded trading and economic relationship between the U.S. and the Soviet Union, and the Administration's position is, and I certainly support the idea, that that will be good for us. That is the basis on which the MFN proposal is advanced.

Q. Have you heard anything from the Soviets that would indicate they are moving to meet the requirements of the Jackson Amendment?

A. Well, I can observe some things. I observe -- and I don't know that I would put it that they are moving to meet the requirements of the Jackson Amendment -- but you can observe, as I understand it, that there has been a much larger granting of permission to emigrate, say last year than the year before, and the year before that, and so on. So that this flow is there, if that is the objective, if that is what concerns Senator Jackson and his supporters, there is some evidence there for them to look at. And there has also been some action taken on the tax.

Q. Did you ask for a report on the hard-core list of Jewish emigrees that Mr. Kissinger gave Mr. Brezhnev?

A. No, I didn't.

Q. Mr. Secretary, United States interest in Siberian resources has been focused mainly on natural gas so far. Is there any American interest in the development of a trans-Siberian oil pipeline to the Pacific?

A. Well, there are a variety of projects under discussion. There is a project that is joint -- at least prospectively it may be joint -- involving the Japanese, the Soviets, and the U.S. there is the North Star project. Then there are a variety of other projects we have discussed that essentially have the attributes of combining proximity to natural resources, such as bauxite, or copper, or manganese, or something like that, with access to relatively inexpensive power, which is so essential to develop those raw materials. So is that another type of project. So there are quite a wide range of things that we think are potentially mutually beneficial under discussion.

- MORE -

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Q. Did you talk about a timetable for changing the Export-Import bank's limitations on credit? That needs legislative...

A. We have discussed the general question of credit and we have, I think, seen and brought out the connection of that as expanded into the levels implied by some of these very large projects, the connection of that with the information that is needed, which refers to a question asked here earlier. The question of Export-Import authority, of course, is a separate question and Ex-Im is loaning all over the world. I think its total outstanding right now with the Soviet Union is dollars 337 million, so that is a relatively small sum in the overall portfolio of the export-import bank right at the moment.

Q. I wonder if you would clarify a point, coming back to MFN. some of us are under the impression that the Soviet Union has made the granting of MFN an absolute prerequisite to the implementation of the October 1972 Trade Agreement, which means lend-lease and credits and everything else that's in that Agreement. Now, is this assumption correct, and if it is not correct, then what is the position on the implementation of the October 1972 Agreement?

A. Well, the Agreement contained an agreement on our part on MFN. From the standpoint of President and the Administration and many other people throughout our country, we think that it is a good thing for us to not discriminate against Soviet goods as they enter our market and we intend to do everything we can to see that that is implemented. Our position is that we are going to work to that end and we feel that we are on the right track and, as you know, right always triumphs in the end, we hope.

Q. Mr. Secretary, how much time was devoted to other aspects of the Jackson Amendment that might prove to be barriers to U.S. - Soviet trade?

A. We didn't dwell on that subject.

Q. Can we assume from what you said that the Soviet have not yet complied with requests for information that would enable the Ex-Im Bank to give them additional credit?

A. No, that is not correct. There is a sort of an understood level that was agreed to before. They are well within that level. Additional proposals come along -- there are some proposals in the works that are potentials of very large scale -- and as the scope enlarges, certainly you want to know more about all of the conditions surrounding that extension of credit. So there has been a fair amount of discussion on that point and I think fruitful discussion on that point.

Q. Will you tell us something about the message from President Nixon which you brought to General Secretary Brezhnev?

A. Well, I didn't have a written message, but I had a point of view which I think you can fairly well sense from what I have said here, but since it was in the nature of a request by the President personally, for me to make some statements to the General Secretary personally, I think I'll leave it at that.

Q. Mr. Secretary, has your visit, do you feel, cleared the way for any action in the near term on any of the major projects? We understood before they were still quite a ways off, yet you have talked about progress, about fruitful discussions, about some other things like that. Can we expect some action fairly soon on any of these big projects, either in the way of granting credits or signing some new deals?

A. Well, there is a flow of activity that has been growing in its scope and in this flow there are a whole variety of actions taken, and I think the fact that there is action as well as talk is probably as well suggested as anything by the numbers, namely \$200 million, \$600 million, \$1½ billion. That is a lot of activity that is recorded in the form of back and forth flows of trade. As far as the various projects are concerned, they are being reviewed, there will be some discussions in Washington, I believe, week after next, on some of the gas proposals, and there is a continuing flow of exploration. But, of course, on any project, but particularly on these projects of great importance both to us and the Soviet Union, it is essential to have the facts as best you can judge them, and be able to make as informed a judgement as possible on the economic foundations of each one of these individual deals.

Q. Mr. Secretary, you mentioned the discussion of the Nairobi talks with the Soviet leaders. Do you have any views on the desirability or the likelihood of the Soviet Union joining the International Monetary Community as trade develops to a large scale?

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A. No, I wouldn't want to express a view on that, nor to leave the implication that they were exploring the subject with me because they weren't. Obviously they deal extensively in trading arrangements with countries throughout the world and the status of the monetary system that is used by the market-based economies is naturally of interest to them. How are the prospects for a settlement emerging and what can be expected in the meantime and so on. So, I think I interpreted the questions that I was asked more as informational, and I don't have comment beyond that.

Q. Mr. Shultz, I notice from the communique here that it was anticipated that the two-way Soviet-U.S. trade would reach roughly $1 1/2 billion this year. Could you elaborate on that, both in terms of imports and exports, and revenue, where this trade is coming from?

A. Well, it's obviously an extrapolation, and I think that so far this year $900 million through July, so...

Q. Does that include the grain figures?

A. That includes everything. We are talking about calendar 1973, so don't put down that 1 1/2 billion is some sort of a sacrosanct number. It's just saying that through July, 900 million, so that's not an unreasonable expectation. So you look for a number that you can compare with last year's number and the year before's number. Now, of course there are in those numbers a lot of agricultural projects, but the number is not going to grow like that without being composed of a lot of growth on non-agricultural projects. And I think shipments of our equipment to the Kama River Truck Factory, for example, are an example of an item, and there are others.

Q. Is there a problem here of Soviets holding up payments to some American contractors as a negotiating wedge?

A. Not that I know of. No. As far as I have been able to observe, the experience of those trading with the Soviet Union is that they deliver on their contracts and they pay their bills--very reliable unit to deal with.

Q. Mr. Secretary, is there any prospect that American firms will come in on the Kurst Steel Projects which was begun by the West Germans?

A. I don't know. (Turns) Do you know the answer to that? This is Mr. Lazarus. Some American firms are talking to the Soviets on that project.

Q. No commitments made yet?

Lazarus. No comments.

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Q. Mr. Shultz, I notice that business facilities are one of the subjects for discussion. As you may be aware, most of the businessmen in this town are pretty unhappy about the way they have to work and operate, and the cost they have to pay to do it. Did this subject come up at all?

A. Yes, this is a subject that we have discussed a great deal. I think the opening of the New Commercial Office that Secretary Dent cut the ribbon in front of this morning, is an example of some progress on that score. In addition, in New York I think a couple weeks ago, an agreement was signed for the construction of an International Trade Complex here that will contain office space and other facilities. So that's a subject that we think is very important and we discussed a lot and we feel that there is, in this case, visible progress being made in the sense that you can walk down the street and look at it.

Q. Except 1978 is a long way away and a lot of businessmen and bankers will tell you that the real problem is what is going to happen tomorrow. At the moment they know that they are in a clash with local authorities here over just a question of rents, which are in some cases higher than in Tokyo. Now, did you get into that kind of discussion?

A. The discussion of that type of thing is sort of a continuing stream in the discussions that particularly Mr. Lazarus has had on this general issue. I think that everybody always has the idea that what we might see in being in 1980 really should be presently instantaneously. Like instant coffee, or something. And sometimes it's possible to move fast and sometimes it takes a little longer, but it's a subject we have been working on, and... I was going to say a good start has been made...I think more than a start has been made in the form of a building that was dedicated and in terms of the improved facilities that are present now, but a great deal remains to be done. Otherwise this facility wouldn't be planned for construction now, but it's a point that is getting and deserves continuing work on our part and on the

Q. Did you make headway on that specific issue....

A. Sure, yes, we have discussed it and there's gradually an improvement, additional firms are certified to have representation here, I was not here, say, three years ago to look and see what the facilities were, but my guess if you looked then and took another look today it would be different. And I think that's a continuing thing. Having said that, I don't want in any sense to take the pressure off the problem.

Q. Is there any particular reason, Mr. Secretary, why you did not visit the offices of American businesses yesterday as you were originally scheduled?

A. Yes, there is a particular reason why I didn't go to that. It was that when I was coming here I asked to see Mr. Brezhnev and Mr. Kosygin, if that were possible. And when I arrived, I had a meeting with Mr. Patolichev, and he informed me that it would be possible. And that probably sometime in the late afternoon or early evening Monday, Mr. Brezhnev would be able to see me, and Mr. Kosygin was just returning from Yugoslavia that day and probably sometime Tuesday. But he didn't know exactly when Mr. Kosygin would be able to see me. As it turned out that around 3 o'clock was the time Mr. Kosygin has available, so that's when I went. I regret not having the opportunity to visit those facilities and would do so if I had the time. I think we did have members of our delegation visit them, however.

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Q. What weight do you ascribe to the restrained nature of the communique on your visit with Mr. Brezhnev as compared with the communique on your previous visit, or even Mr. Kendall's reception here?

A. Well, I hadn't appreciated that it was restrained until I read in the press that the meeting was restrained, or I saw one of the clips. My own interpretation of the meeting was that it was--I had met with Mr. Brezhnev once before here and I met with him in Washington and in groups--the meeting was very constructive and cordial and I found it very useful. I didn't see any particular contrasts in terms of restraint, although I recognize that you people who are here are students of all these documents and perhaps you understand it better than I do, but I was in the meeting, and I felt that in terms of its spirit and tone, very much like the meeting that I had last March.

Q. The communique did not use that language?

A. Well, I really didn't focus much on the communique. It said that we met and who was there and that we discussed a wide range of topics. That's descriptive.

Q. Has any information which you have received while you were in Moscow made you more or less optimistic as to the possibilities of Congress granting MFN?

A. Well, I think the question of congressional action is something basically we have to face at home. At the same time I think the overall impression that I carry away from this meeting is that the representatives from the Soviet Union are putting a high quality of effort into this whole development of trade and economic relationships, that there is a seriousness of purpose that shows through all the way and a very good spirit about it. Now we know that there are obstacles in the past of this development. Right now the MFN question is one that looms large. I think as I said in Nairobi when we were discussing some of the obstacles of a totally different sort. The job of people in public office is to try to solve problems and that's what we'll try to do.

Q. Have you found the same kind of enthusiasm on the Soviet side as, say, you may have found last March? It's been apparent to some of us that there is an undercurrent of disillusionment that has surfaced recently from time to time about the Soviet-American romance. Can you comment on that, Sir?

A. Well, it's hard for me to make sort of precise comparisons. When I was here in March the setting was not a formal meeting of the Commission, but sort of a more general visit on my part to get acquainted with various people in particular and this time we have had a formal meeting of the Commission. So there was in a sense a much more substantive piece of work to be done this time as compared with last time. When I compare the general sort of atmosphere in meetings with people that I met with before, it seemed to me very cordial before, it seemed to me very cordial this time. In fact, to a degree these tend to build on themselves in that, as human beings, we come to know each other a little bit, and therefore I think I can communicate more easily and feel a greater sense of confidence in what we are saying. So I didn't detect this that you have mentioned.

Q. Did you discuss the possibility of the Jackson Amendment being put on any legislation dealing with the extension of credits to the Soviet Union?

A. No, I didn't. We talked about this sort of generalized problem and my general approach was to say that the President was supporting the agreement that was made here, and I tried to express to you the reasons for that beyond, from our standpoint, from the U.S. standpoint, beyond simply carrying through on an agreement, which I think is important in and of itself. But why we have something to gain from that and that we are working on it and intend to keep working on it, and we feel that the logic of the situation is on our side and that gradually this will emerge.

Q. Mr. Secretary, some of the things that the Soviet Union wants to buy from us most, they cannot presently buy, particularly in the field of high technology, computers, air traffic control equipment, a whole range of things are still under the Office of Export Control's restrictions. Now I realize it's not a negotiable subject, but I am wondering if you can comment on how the administration sees the possibility of easing export controls on these so-called strategic items?

A. I don't want to make any particular comment on that because those are matters that are under review, and I think they are just part of an unfolding relationship, There was a time not too long ago when the scope of things that were prohibited to trade were much larger. So there has been motion in this area as in other areas. But you try to walk, then you try to run, maybe try to trot, then try to run, before you try to do the ballet. We may never be able to do the ballet like they do it here.

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

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FOR IMMEDIATE RELEASE October 5, 1973

TREASURY ANNOUNCES ACRYLONITRILE-BUTADIENE-STYRENE TYPE OF PLASTIC RESIN FROM JAPAN IS BEING SOLD AT LESS THAN FAIR VALUE

Assistant Secretary of the Treasury Edward L. Morgan announced today that acrylonitrile-butadiene-styrene (ABS) plastic resin (in pellet and powder forms) from Japan is being, or is likely to be, sold at less than fair value within the meaning of the Antidumping, 1921, as amended. This plastic resin is used in a number of engineering type applications such as telephone and appliance housings and drain, waste and vent pipe. Notice of this determination will be published in the Federal Register of October 9, 1973.

The case now will 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 ABS plastic resin from Japan which have not been appraised and on which dumping margins exist.

A notice of "Withholding of Appraisement" was issued on July 6, 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.

ABS plastic resin produced and sold by Ube Cycon, Ltd. of Tokyo, Japan, is excluded from this action, since 100 percent of its export sales during the period under consideration were examined, and no sales by Ube Cycon were found to be at less than fair value, nor is there any likelihood they will be at less than fair value.

During the period of January through April 1973, imports of ABS plastic resin (in pellet and powder forms) from Japan were valued at approximately $4 million.

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INFORMAL REMARKS BY
SECRETARY OF THE TREASURY GEORGE P. SHULTZ
BEFORE THE GERMAN FOREIGN POLICY SOCIETY
BONN, WEST GERMANY, OCTOBER 5, 1973

I appreciate the chance to be here, to be introduced by Mr. Helmut Schmidt whom I have not known for a long time -- only about a year and a half now -- but I knew him by his reputation from my friend Mel Laird who worked with him as Secretary of Defense. It has been a great pleasure for me to meet with Mr. Schmidt and work with him on international meetings and even occasionally to be lectured by him about my responsibilities. (Laughter) I judge from the way people responded to that you lecture people here once in a while too. It's a thing, and I think that all finance ministers have to be indulged once in a while, to express themselves in no uncertain terms that, by gosh, it's going be that way. That's one of the points in the membership card in the union of finance ministers around the world.

I also would like to thank Dr. Walter for his invitation and particularly for the suggestion that I might talk about the political implications of international monetary reform. I think that is a good subject and a good way to address the problem, because we tend to look at it from a standpoint of the technical systems. As an economist, and certainly as Secretary of the Treasury, I will not want to put my endorsement on any system that is proposed unless it has internal integrity of its own and seems to hang together as a technical economic proposition. I think that is a necessary condition for us to be able to agree on something.

We have focused a great deal of attention on this, and I believe that underneath the surface, in a sense, a great deal of headway has been made and, while we argue about the adjustment mechanism and convertibility points and the interest rate on the SDR and all these things -- and those represent important and difficult issues -- they are not the issues on which I would like to concentrate. I believe that if the political aspects can be satisfied properly, we can solve those problems. I think that it is obvious that any system that is developed must be politically acceptable around the world and you must be able to see in it characteristics as it is imagined to operate that will make it politically workable. There's no point, in other words, in developing intelligent international monetary mechanisms that will simply not be accepted by the parliaments and congresses and people of the world. I want to focus my attention on what seems to me to be some of the aspects of the system that we should have in mind, looking at it from that standpoint, not from an economic and technical standpoint. And, again, I don't want to be misunderstood because I fully recognize and subscribe to the idea that the system must have economic and technical integrity.

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The first point that I would make in my list is that it seems to me the system that evolves must envisage within it a great deal of flexibility for nations to make internal choices about their economic policy and about their methods of adaptation to whatever kind of pressure for adjustment may be generated by the system. That is, the greater the degree to which adjustment can be left in the hands of a country to adapt to whatever problem it gets into, the more politically saleable the system is going to be. So I think that that is a point of great importance. I would accompany it, however, with the notion that somehow -- and I don't think this is a matter that can really be transmitted by the rules that you write down but will come more out of practice than out of behavior -- but there must be, as each nation pursues its own method of adjustment and its own economic policies, a consciousness for the international aspects of it and a desire to trim those policies in order to help to achieve international balance. So that is point one that seems to me to be very important.

I generate these points in a sense by imagining myself, when a system has been agreed to, going before our Congress and responding to questions about it and imagining the kind of questions that I'll be asked and trying to think of what kind of a position would put me in the best position to give good responses. I can say, "Well, this is a system that has international discipline to it" and at the same time, when it comes to our policies, if the system has been designed to allow us as much autonomy as possible, I think we're in a better position.

Second, it seems to me that international order means that there must be respect for it and there must be some way of insisting upon it. Now I know there is a word for that in Europe called "convertibility." I find that word is alright but it doesn't provide any respect on the surplus side of the ledger, and in a sense, if the situation is too far out of balance, it just breaks down. And so somehow methods for enforcing respect for what is agreed to need to be developed and broadened beyond just that. Now I think that as we project this from the U.S. standpoint, we feel that the system must be describable with some rules that have content from an operational standpoint, so that when we are saying to our Congress, "Here is this system we want you to endorse," and they ask, "How is it going to work and what's going to happen under this and that circumstance?", we have to be able to answer the questions. It's a legitimate question, and we can't be in a position of saying, "Well, what is going to happen is we have these very wise and nice people we've gotten to know, the finance ministers of the world, and the way this system is going to work is we're going to get together once in a while and if they don't like the way we're doing our business, they're going to tell us." That's not going

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to sell. That is a loser politically. We have to be able to say, "Well, here's the way the system works: this is the way that judgments are going to be made, these are the rules of the game, the criteria." And while it is not mechanically predictable, and, I agree very much with the point that's been made that you can't have a system that is just mechanical, nevertheless, it is a system that has a definable and describable substance to it. I suppose that's what we have meant by saying that we think in the system there has to be some backbone that is present from the start and that does not have to be created de novo each time there is a difficult case.

Now, having said that, I agree that just the mechanical automaticity is not going to please anybody; there are too many exceptional circumstances that can be identified and one needs to have a way to deal with them. I do think that the IMF is undoubtedly the vehicle for doing that. But again, I don't think that we can simply rely on the IMF as it has been to be abl to do that job, particularly in the beginning stages of a system. With whatever precision we are able to describe the rules, we know that behavior will describe it better over some period of initial years and the way in which the behavior is mediated by the international body will in a sense develop a common law about what the system really means. So, I do think we need a strengthened IMF and I believe there is a general consensus on this and that it will be an effort that will require, at least in the initial stages, some amount of time from people like Helmut Schmidt and his colleagues.

It seems to me that the system has to have in it the notion that we can avoid large and persistent imbalances because these inevitably lead to crises and are the things that really break down the system. I would say from the U.S. point of view, as we think of the monetary system, it has no purpose in and of itself. There is nothing that would not be created were it not for the desire to have trade and to have investments flow and things of that kind. So it is our notion that we should try to avoid controls on the flow of trade and the flow of investment to the maximum extent possible and that is simply compatible with the purpose of the monetary system to begin with. And it seems to us a kind of perversion to have the monetary system, which is designed to facilitate these movements, become the vehicle for inhibiting them.

One of the problems that I think we should be alert to, again speaking of the mixture between the technical and the economic and the political, is the problem of the unnecessary requirements. Everybody has their particular "hang-ups" as we call them in the U.S. -- things that they particularly play around with and worry about. There's always a temptation to try to get into something new that's being created additional things you'd think would be nice from your standpoint but which are really not necessary to the operation of the monetary system as a monetary system. And I think that the more of these -- I'll call them unnecessary things -- there are hung on to the system, the more prone it will be to break down. And it may break down over things that have nothing to do with it but which, because of being too much added baggage, may break it down. Now here, I have in mind, among other things, the so-called link. That is a very troublesome and difficult issue, I think, because the developing countries have made it clear that from their standpoint, from the standpoint of their politics, and what will look like an acceptable and workable system to them, many of them have said flat out, "We don't care what you design as an international monetary system; the only thing we care about is that it distributes aid to us. Other than that, you do whatever you want, and we'll trust that you won't have something that's crazy, so we'll go along with it. The only thing we care about is that it distributes aid."

Well, as I look at it, if you're just thinking about this as a monetary system, the characteristic that it distributes aid is an unnecessary characteristic. It doesn't really do anything for the monetary system itself and yet it concerns us greatly that if it comes into being, it will make it very difficult to oppose the SDR -- that is the basis of the numeraire. Even our friend Giscard d'Estaing is now claiming parentage of the SDR, so it is widely accepted -- "has acknowledged" I should have said rather than claimed. But, if that is going to be the numeraire and we are pushed into the link, it is hard for me to imagine that whatever restrictions are put up to protect the system against excessive creation of liquidity, if we are bowled over in the beginning, how are we not going to be bowled over the next time around, and how are we going to maintain the criterion of usefulness in the monetary system for the creation of the SDR? I don't know how much you all follow the trials and tribulations of the World Bank and the IDA and the IDA IV replenishment issue, as I'm sure some of you do, but, at any rate, there is a critical point on July 1st when it looks as though it's going to be very difficult to see just how IDA is going to be able to continue its commitments of soft money. Well, what a temptation if we had a system with an SDR link in it to solve the problem that way. It's practically irresistable. Therefore, I think the problem of not loading on unnecessary requirements -- that's a very important thing and we ought to all discipline ourselves.

Somehow, this brings me around from the politics to the economics, but it is a point of great importance, I believe, that the system must respect the market. It is my observation fundamentally that there's always the temptation among us politicians to want to have something in being so much that we want

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to declare it to be. And there is always the temptation of the wish becoming the father of the thought in this area. The thing that always saves you, although you curse it, constantly is the market. I think it is essential to get into this system a respect for the market, not an unwillingness on the part of governments to disagree with the market, and to back their disagreement with intervention, if that is their conviction, and to do it in the expectation that since they believe they are right and the market is wrong, they are going to make a lot of money and the speculators are going to lose a lot of money. That's any government's right. But I think in the system as a whole the respect for the judgments that the market makes needs to be present.

Now those are a listing, not in any particular order, of elements in the system that seem to me to reflect on the political saleability, at least as I have reflected on the U.S. situation. And I'd like to now go on and comment on two other aspects that seem to me necessary for a system to get off the ground and work.

The first is it seems to me before any system can really start effectively, the U.S. balance of payments must get healthy. Gigantic U.S. deficits are incompatible with a stable operation of any international monetary system. I don't think that anybody would disagree with that or argue about it. I think that it's important to state it and keep it in front of ourselves and I think we can take some measure of hope and optimism from the fact that we have seen a decided turn in the U.S. balance of payments. Our trade position has come around I think more rapidly than most people expected. And I recognize that there are some factors that won't be present forever, particularly in food sales, but nevertheless it has come around and the trade position I believe will be accompanied by a shift in the investment position. It was true last year that we were roughly in balance in the investment account and I wouldn't be surprised at all but that we will find more investment flowing into the U.S. than going out of the U.S. in many subsequent years. It is hard for me to believe, having looked at the prices my wife has been paying as we travel around a little bit, that these prices aren't going to have an effect on tourism which has plagued our balance of payments account. It may even make the U.S. a reasonably attractive place to visit. So I believe that there are signs that the U.S. balance of payments is getting into a much better position for reasons that are understandable, and therefore that one can feel that perhaps this improvement will last.

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The second thing that seems to be an additional starter that I would put in front of you is the importance of getting control of inflation. And again, I think it is one of those matters where it's almost as though if we had a nice stable situation everywhere on prices, practically any monetary system would work and if we just have wildly gyrating inflation of different high rates everywhere, almost no monetary system can really successfully struggle with that.

So the control of inflation is very important, and we have been having our difficulties in the U.S. this year after having seemed to be getting somewhere in 1971 and 1972. Let me just comment briefly on the U.S. situation as far as inflation is concerned. First of all, our budget policy has tightened greatly, comparing this year with last year. We have gone from deficits in fiscal 1972 on the order of $23 or $24 billion to on the order of $11 billion or so in 1973, and we think that in fiscal '74 that we're now in we will have a budget more or less in balance. We anticipate revenues on the order of $270 billion, and it looks very much as though we can hold the outlays to that number. We did very well holding outlays down last year and surprised even ourselves how effectively that was done, so we can have some confidence that our budget will contribute to discipline this year. And there's an interesting sidelight to that I thought of as we were talking here at lunch, that we have tried to study state and city budgets. For a variety of reasons, it nevertheless turns out that in this fiscal year all of our states and cities taken together will have a surplus in their budgets on the order of about $13 billion. That's a strange thing to contemplate since we have just had a big exercise in providing revenue sharing from the Federal government to the states and, as my friend Arthur Burns -- who is one of the early and great advocates of revenue sharing -- commented to me just before this act was about to come into place, "George, you are getting ready to share revenue that you do not have."

To a certain extent there is an irony there. Nevertheless, I think the basic system over time will prove itself well, but looking at this from the standpoint of government and its impact upon our economy, government is, relatively speaking, in a very disciplined budget position. I won't dwell on our monetary policy as that is the responsibility of the Federal Reserve in our country, but certainly Dr. Burns has every intention of having a disciplined monetary policy, and we have endured interest rates that are beyond our imagination anyway. We tend to be a low interest rate country, and rates are very high in the U.S. right now. The aspect of the inflation picture that I wanted to hit on especially, however, is neither of those basic policies which are, we all agree, the essentials, G

but rather, on policies with respect to prices in particular markets because, in our case, over 80 percent of the rise in the wholesale price index in the last year and over two-thirds of the rise in the consumer price index comes from two areas -- food and energy. Or in a sense, if you took them out of the picture and just computed the rest of it, we would have a rate of increase in prices that would be quite tolerable.

So if we direct our attention to those areas, what do we see? Well, we have quite an energy problem and we are taking a variety of measures and we finally have got the message in our country about the fact that this is a problem. We're taking a variety of measures designed to increase supply and we have large resources and we need to learn how to use them. Now that is a long-term proposition, and it doesn't do very much for you six months from now, but I can say it's about time we began building the Alaska Pipeline. It's about time we really started to pour a space-shot type effort into the problem of how do we learn how to use the limitless reserves of coal that we have. It's about time that we did a great variety of other things in the R&D area, atomic energy, that are available to us. And I think you will see a greatly stepped-up effort in this field in the U.S.

On the side of food, we have a greater ability to expand supply and we have used it very considerably in this crop year and intend to go all out in the next crop year. And we have seen the results of that in our prices. You all know we've had a situation during the summer in which commodity prices escalated to unbelievable heights; and soybeans, the various soybean derivatives, wheat, corn, cattle, hogs, poultry just sky-rocketed. And, of course, we have been betting that improved supply and the natural censorship that is put on the demand by high prices, if you will just have the patience to let it work, it would bring those prices down. And we have seen some dramatic changes since just last summer. It turns out the Secretary of the Treasury has to become an expert on agriculture, at least some agriculture, these days. I can report to you the following percentage changes: comparing yesterday's closing price in the Chicago or Omaha or New York markets as the case may be with the high price this summer, and bear in mind that most of these high prices hit just at the time of the wholesale price index in the middle of August, so, in the case of soybeans, the decline since the summer high has been 53 percent; 53 percent decline in prices -- a gigantic change. In soybean meal, 58 percent; soybean oil, 41 percent; wheat, 10 percent; meat is still hanging up there, but in the last week the mean prices have been coming down. They're beginning to respond. I don't know what's going on today, but

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this $5.35 wheat just began to get too steep and supplies are coming on the market. The crops have been pretty good in many places -- some bad spots -- but anyway, a 10 percent decline so far. Corn, 27 percent decline; cattle prices, 29 percent decline; hogs, 34 percent decline; poultry, 39 percent decline. Gentlemen, these are big numbers. They, I think, do suggest that if we will just have the guts to let the market work once in a while -- I speak with some diffidence as the person in charge of our wage and price control system in the U.S. on that -- but, if we will just let these markets work once in a while, we will see a result. I think what these numbers show is that these big run-ups in the summer were produced by speculation. It was a speculative bubble and it got pricked. This was not a genuine reality; it is the result of something which was built up and has come down. We believe that our situation is such that our markets which are open markets to all the world can be kept open and we have every intention of staying on that track.

Finally, let me come back to the theme here and that is the international monetary system and some of the political dimensions of this. I've gone over them as I see them, and let me just say finally that no one I know realizes this more nor has pointed it out to me more forcefully from our very first meeting on this subject than my friend Helmut Schmidt. I have found not only with him but with his colleagues in this and other fields that people I've worked with from Germany are good and reliable, come well-prepared, are intelligent, they are forthright, and most of all, on this theme, they are realistic, politically realistic, and I think that if we are going to succeed in this enterprise, we have to be technically good, but we must be, above all, politically realistic. I'll be glad to respond to questions.

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OCTOBER 5, 1973

WINTER FUEL SHORTAGE CAN BE EASED,
TREASURY OFFICIAL SAYS

The shortage of heating oil and natural gas could be substantially eased this winter if all consumers lowered their thermostats three degrees, according to William E. Simon, Deputy Secretary of the Treasury.

Simon, who is also Chairman of the President's Oil Policy Committee, today said that a three degree lower thermostat setting by all consumers could save over 12 percent of the fuel oil, or 63 million barrels, and almost 14 percent of the natural gas, or 760 billion cubic feet, used for space heating. This finding was based on an analysis by Treasury's Office of Energy and Natural Resources.

Secretary Simon emphasized that, "these savings in fuel are averages; actual savings would depend on amount of insulation, average temperature this winter, and region of the country."

He said that his Department's analysis is useful because it points out how consumers, on their own, can help avoid a fuel shortage this winter, and at the same time save money. Assuming 23 cents per gallon retail price for heating oil, the total saving is $609 million, but this will increase, as the price of imported fuel rises.

"Another advantage is that our dollar outflow for oil imports will be reduced correspondingly," Simon said.

He warned that "regional shortages will still plague us, and the mandatory allocation program announced by the President Tuesday,

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October 2, will help ensure that all regions of the country and all sectors of the economy have fuel supplies.

"We will have to increase imports of heating oil this winter to meet our normal demand, but it may not be possible to increase import as fast and in the amount needed to meet substantially increased dema Our fuel demands are increasing," he said, "because of more homes built, higher industrial demand, and because some utilities have switched from coal to oil as a means of reducing air pollution."

Simon concluded, "In view of the tight fuel supply projected for this winter in the United States, energy conservation seems an extremely wise course for all of us. There is a tremendous potential for fuel economies and I know that we are all only too familiar with the experience of being in shops and offices and homes that are overheated almost to the point of discomfort."

Consumers might save on fuel consumption in other ways, too. These include:

- Adding insulation to ceilings (6") and walls (4");
- Installing storm windows and doors, caulking, and weatherstripping;
- Properly maintaining heating systems; removing dust from registers and ducts, replacing and cleaning filters, and adjusting burners;
- Opening drapes and venetian blinds on sunny days, and closing them at night;
- Installing and using humidifiers; and
- Lowering thermostat settings at night and when buildings or rooms are unoccupied.

Attachment
Assessment of potential
saving--heating oil and natural gas

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HEATING OIL AND NATURAL GAS - POTENTIAL SAVING BY TURNING DOWN THERMOSTATS 3 DEGREES - AN ASSESSMENT

Joseph Lerner, Senior Economist
Office of Energy and Natural Resources
U. S. Department of the Treasury
October 4, 1973

SUMMARY

1. A three degree (°) sustained lowering of thermostats would reduce the amount of distillate oil used for space heating by more than 12 percent (%) and natural gas by nearly 14%.

Savings of distillates, generally used for space heating in the colder regions of the United States, during an average heating season of 212 days, would be about 63 million barrels (42 gallons/barrel). Savings of natural gas, generally used for space heating in warmer regions during an estimated heating season of 182 days, would be 760 billion cubic feet.

2. Imports of distillate oils were 80 million barrels October 1972 through April 1973. Based on U. S. Bureau of Mines projections, the U. S. must import 131 million barrels during the same period in 1973-74 in order to satisfy demand. Thus, the potential saving of 63 million barrels of distillates, if fully realized, could mean a substantial reduction in needed imports. Assuming 23 cents a gallon retail price, consumers would save $609 million.

The potential savings of natural gas (760 billion cubic feet would more than meet the shortfall of 629 billion cubic feet projected by the Federal Power Commission for winter 1973-74.

3. Additional fuel savings can be realized by lowering thermostats even more at night when space is not occupied. This is made easier if the thermostat has a timer.

4. In addition to lowering thermostats, many other measures can be taken to reduce heating demand. For example, adding insulation saves fuel by reducing the rate of heat loss. It also permits a lower thermostat setting because insulation reduces drafts and temperature variations. In poorly insulated buildings, the thermostat in one room may need to be set higher than necessary, to make other rooms comfortable.

<u>METHOD</u>

1. Analysis of overall temperature date indicates that, nationally a 3° lowering of thermostats would cut the amount of distillate oil used for heating by over 12%. Winter thermostat settings average about 74°, so a 3° reduction seems reasonable.

2. The Bureau of Mines estimates 1974 needs for distillate heating oils at nearly 568 million barrels. We assume that 90% of these heating distillates are for space heating, or 511 million barrels. A 12.3% reduction in this amount would yield 63 million barrels.

3. Based on American Gas Association views, we estimate that 70% of the natural gas going to residential and commercial sales is used for space heating. This does not take into account sales of natural gas to manufacturers and electric utilities, some of whose purchases are used, directly and indirectly, in space heating, and which would also be subject to savings by lowering thermostat settings. In 1972, sales of natural gas for residential and commercial use totaled 7.4 trillion cubic feet. With 70% for space heating, 5.2 trillion cubic

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feet went to that use. A 13.7% savings would have reduced demand by 708 billion cubic feet in 1972.

On the basis of AGA projections, sales of natural gas to residential and commercial customers will increase 7.4% for the current heating season. The savings potential is increased by the same proportion, from 708 to over 760 billion cubic feet.

4. The technique used to estimate fuel savings involves the relationship between "degree day deficiency" (ddd) and reduction in heating which results when the indoor thermostat setting is reduced. The ddd is the difference between the average temperature for the day and 65°. The American Society of Heating Refrigeration and Air Conditioning has established 65° as the outside temperature below which heating is needed. The indoor temperature is higher than the outside because of cooking, lighting, appliance use, water heating, and radiation. If the average outside temperature for a day is 20°, then that day contributes 45 ddd's (65°-20°). These ddd's are accumulated for whatever period is relevant.

5. Each one-degree decrease in the thermostat setting has the same effect on heating as a one-degree increase in the outside temperature. For example, if the thermostat is lowered 3° for 31 days, the effect is to reduce the month's ddd's by 93. Dividing these 93 units by the number of ddd's in the month gives the percent by which fuel required for heating is reduced. Fuel consumption is assumed to be proportional to the number of ddd's.

6. According to Platt's Oilgram, the U. S. averages a degree day deficiency of 5,156 annually for colder regions where oil is generally used. We have assumed a heating season of 212 days for

oil heating. A 3° reduction for 212 days results in a potential saving of fuel which would have to be used to offset 636 ddd's (212 x 3°). Because the average year has 5,156 ddd's, the 636 ddd's comes to 12.3%. With fuel use proportional to ddd's, the average oil saving would also be 12.3%.

7. Natural gas is generally used for space heating in warmer regions, where the heating season is assumed shorter--182 days. The total number of ddd's for gas heating in warmer regions is assumed to be 4,000, as compared with 5,156 for oil space heating. Thus, a 3° lowering of thermostats would save 546 ddd's (182 x 3°); 546 of 4,000 ddd's represents a 13.7% saving.

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NOTE: All figures are approximate, to facilitate presentation.

Department of the TREASURY NEWS
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THE DEPARTMENT OF THE TREASURY 1789

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FOR RELEASE 6:30 P.M. October 5, 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 October 11, 1973, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing January 10, 1974		:	26-week bills maturing April 11, 1974	
	Price	Equivalent annual rate	:	Price	Equivalent annual rate
High	98.161 a/	7.275%	:	96.345 b/	7.230%
Low	98.145	7.338%	:	96.313	7.293%
Average	98.149	7.323% 1/	:	96.330	7.259% 1/

a/ Excepting 2 tenders totaling $1,000,000; b/ Excepting 3 tenders totaling $1,700,000
Tenders at the low price for the 13-week bills were allotted 39%.
Tenders at the low price for the 26-week bills were allotted 84%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 40,215,000	$ 13,555,000	:	$ 15,775,000	$ 5,375,000
New York	3,849,885,000	2,109,285,000	:	2,628,845,000	1,401,080,000
Philadelphia	20,420,000	15,825,000	:	37,785,000	6,785,000
Cleveland	152,340,000	149,890,000	:	20,610,000	17,460,000
Richmond	14,810,000	14,810,000	:	21,025,000	16,015,000
Atlanta	18,375,000	16,055,000	:	21,115,000	19,990,000
Chicago	188,150,000	66,420,000	:	244,955,000	160,555,000
St. Louis	40,340,000	19,730,000	:	54,695,000	23,625,000
Minneapolis	30,560,000	8,040,000	:	22,185,000	15,935,000
Kansas City	31,395,000	21,710,000	:	17,455,000	16,155,000
Dallas	35,215,000	15,015,000	:	34,705,000	12,005,000
San Francisco	121,940,000	50,840,000	:	146,110,000	105,250,000
TOTALS	$4,543,645,000	$2,501,175,000 c/		$3,265,260,000	$1,800,230,000 d/

c/ Includes $243,970,000 noncompetitive tenders accepted at the average price.
d/ Includes $169,200,000 noncompetitive tenders accepted at the average price.
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 7.56 % for the 13-week bills, and 7.64 % for the 26-week bills.

Department of the TREASURY NEWS

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DEPARTMENT OF THE TREASURY
Fiscal Service - Bureau of Accounts

Statement of Steve L. Comings
Comptroller of the Bureau of Accounts
for presentation to the Senate
Foreign Relations Committee
TUESDAY, OCTOBER 9,1973, 10:00 A.M.

GENERAL STATEMENT

Mr. Chairman and members of the Committee, I am pleased to be here to discuss with you the provisions of S. 1398. With me today are John Turner, Deputy Comptroller of the Bureau of Accounts, and John Kilcoyne, Office of the General Counsel, Treasury Department.

This bill, S. 1398, is identical to S. 1330 which was introduced in the 92d Congress, reported upon by the Senate's Committee on Finance on March 23, 1971, Senate Report No. 92-44 and passed the Senate without amendment on March 25, 1971. No action was taken by the House.

The principal purpose of the bill is to effect the transfer to the Government of the Republic of the Philippines funds which the Secretary of the Treasury holds in a trust account to make principal and interest payments on outstanding matured bonds of the Philippines and its political subdivisions, issued before May 1, 1934.

The trust account was established in the Treasury in 1946 for the payment of interest and principal of these outstanding bonds. The funds in this account were received from the Philippine Government. In 1951, the Secretary of the Treasury determined that the trust account balance was sufficient to meet principal and interest payments on all outstanding bonds and in accordance with the Act of March 24, 1934, as amended, the Secretary of the Treasury began making principal and interest payments out of the trust account. Also, in accord with the Act, whenever the Secretary determined that the trust account balance was in excess of an amount adequate to meet interest and principal payments on all such bonds, such excess was turned over to the Treasurer of the Philippines. An aggregate of $1, 838, 000 was determined to be excess by the Secretary and that amount was returned to the Philippines.

The maximum amount in the trust account that would be transferred is $138, 739. 21. There have been very few payment transactions during the past several years.

In order to return these funds, the proposed bill repeals the specific statutory designation and authority of the Secretary of the Treasury to make principal and interest payments on pre-1934 Philippine bonds. The bill provides for an effective date 60 days after enactment to allow the Treasury adequate time for making the necessary fiscal arrangements. In addition, the Government of the Republic of the Philippines has agreed to accept the funds which the bill proposes to be transferred and to assume full responsibility thereafter for principal and interest payments in accordance with an agreement with the Government of the United States, dated November 26, 1969. This agreement by its terms will go into effect upon receipt by the Philippine Government of advice from the United

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States Government that the proposed bill has been enacted.

In summary, the proposed legislation is essentially a housekeeping measure and involves a relatively small amount of funds -- less than $139,000, consisting of $97,000 interest, and $42,000 principal. This represents approximately 1/2 of 1 percent of the total bonded indebtedness of over $25 million that was originally set up in the account. It would remove an account from the books of the Treasury and eliminate a number of administrative requirements. This account was established by the Act of August 7, 1939 (53 Stat. 1226) to meet principal and interest payments on "bonds of the Philippines to which a moral obligation of the United States might have been attached .... The United States would thus be insured against potential claims of holders of such bonds alleging a moral obligation on the part of this Government to save them harmless" (S. Rept. 453, 76th Congress, 3 (1939)). Approximately 76 percent of these bonds matured 21 years ago and the latest issue matured 10 years ago. We feel that if there were a moral obligation it certainly has been fulfilled at this time by the United States. Treasury has had transactions in this account totaling only $7,000 over the past seven years. We have no way of knowing when, if ever, the few outstanding bonds and coupons will be presented for payment. Therefore, the bill enables Treasury to return the funds to the Philippines rather than to hold them indefinitely. The Philippines have agreed to accept the funds and to assume the liability for the payment of the outstanding bonds and coupons.

That concludes our statement, Mr. Chairman. We will be glad to answer any questions.

Department of the TREASURY
OFFICE OF REVENUE SHARING
WASHINGTON, D.C. 20220

NEWS

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FOR RELEASE, TUESDAY, OCTOBER 9, 1973: A.M.s

OFFICE OF REVENUE SHARING
ISSUES COMPLIANCE REVIEW REPORT

Civil rights compliance, accounting and auditing procedures have been reviewed by U.S. officials in visits to the 103 governments which received 52% of all general revenue sharing funds, according to a report issued today.

Staff of the U. S. Treasury Department's Office of Revenue Sharing and auditors borrowed from other Federal agencies conducted preliminary audits and compliance reviews of 48 states, the District of Columbia, 31 of the largest cities and 23 large urban counties in May and June of this year. Their findings were released today.

"The visits assured us that we will be able to draw on recipient governments and citizen organizations for help in administering the law. The Office of Revenue Sharing will augment its own program by including reliable existing private, state and local audit systems and compliance institutions in our compliance program," Graham W. Watt, Director of the Office of Revenue Sharing announced in issuing the report.

Section 122 of the State and Local Fiscal Assistance Act prohibits recipients from using their revenue sharing money in any project or activity which involves discrimination on basis of race, color, national origin or sex.

According to the report issued today, approximately 40% of the state and local jurisdictions visited had either validated their employment entrance tests for nondiscrimination or were undergoing validation studies.

Assurances were obtained from all jurisdictions visited that nondiscrimination clauses will be included in all contracts funded through revenue sharing.

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Forty-six of the forty-eight states require audits to be made of some or all of the local governments within their boundaries.

All but one of the jurisdictions visited had invested all or part of the funds they had received. One local government had spent its funds as soon as it had received them.

While most governments were pleased with the program, they expressed general concern about the future of the program. General revenue sharing is now authorized to return funds to state and local governments through calendar year 1976.

Although general revenue sharing is virtually free of "strings", recipient governments are required to meet minimal reporting, audit, and accounting requirements. They must publish the two reports they file each year with the Office of Revenue Sharing. As funds are spent, recipients must see to it that no discrimination is involved, that the money is not used to match other Federal funds and that in construction projects where 25% or more of the cost is paid with shared revenues, the Davis-Bacon Act prevailing wage requirements are observed.

General revenue sharing is authorized by the provisions of Title I of the State and Local Fiscal Assistance Act of 1972, signed into law by President Nixon last October. Secretary of the Treasury, George P. Shultz established the Office of Revenue Sharing to administer the program.

Thus far, more than $9.5 billion has been paid to more than 38,000 general purpose units of state and local government throughout the United States.

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Attachment - List of jurisdictions visited in preliminary audit and compliance reviews.

OFFICE OF REVENUE SHARING
JURISDICTIONS VISITED FOR 1973

AUDIT AND COMPLIANCE REVIEWS

State of Alabama
Jefferson County, Ala.
State of Arizona
City of Phoenix, Arizona
State of Arkansas
State of California
City of Los Angeles, Calif.
City of San Francisco, Calif.
Alameda County, Calif.
Kern County, Calif.
Los Angeles, Calif.
Orange County, Calif.
Riverside County, Calif.
Sacramento County, Calif.
San Bernadino County, Calif.
Santa Clara County, Calif.
San Diego County, Calif.
State of Colorado
City of Denver, Colorado
State of Connecticut
State of Delaware
District of Columbia
State of Florida
Dade County, Fla.
City of Jacksonville, Fla.
City of Miami, Fla.
State of Georgia
State of Idaho
State of Illinois
City of Chicago, Ill.
Cook County, Ill.
State of Indiana
City of Indianapolis, Ind.
State of Iowa
State of Kansas
State of Kentucky
City of Louisville, Ky.
State of Louisiana
City of Baton Rouge, La.
City of New Orleans, La.
State of Maine
State of Maryland
City of Baltimore, Md.
Baltimore County, Md.
Montgomery County, Md.
Prince Georges County, Md.
State of Massachusetts
City of Boston, Mass.
State of Michigan
City of Detroit, Mich.
Wayne County, Mich.
State of Minnesota
State of Mississippi
State of Missouri
Kansas City, Mo.
City of St. Louis, Mo.
State of Montana
State of Nebraska
State of Nevada
State of New Hampshire
State of New Jersey
Essex County, N.J.
State of New Mexico
State of New York
City of Buffalo, N.Y.
New York City, N.Y.
Erie County, N.Y.
Nassau County, N.Y.
Suffolk County, N.Y.
State of North Carolina
State of North Dakota
State of Ohio
City of Cincinnati, Ohio
City of Cleveland, Ohio
Cuyahoga County, Ohio
State of Oklahoma
State of Oregon
City of Portland, Ore.

State of Pennsylvania
City of Philadelphia, Pa.
City of Pittsgurgh, Pa.
Allegheny County, Pa.
State of Rhode Island
State of South Carolina
State of South Dakota
State of Tennessee
City of Memphis, Tenn.
Metro Nashville-Davidson, Tenn.
State of Texas
City of Dallas, Texas
City of Houston, Texas
City of San Antonio, Texas
State of Utah
State of Vermont
State of Virginia
State of Washington
City of Seattle, Wash.
State of West Virginia
State of Wisconsin
City of Milwaukee, Wis.
Milwaukee County, Wis.
State of Wyoming

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CORRECTED COPY

FOR IMMEDIATE RELEASE October 9, 1973

ARCH S. RAMSAY
NAMED DIRECTOR, OFFICE OF PERSONNEL

Secretary Shultz today announced the appointment of Arch S. Ramsay as Director of the Office of Personnel for the Treasury Department. Mr. Ramsay succeeds Amos N. Latham who retired on April 30 of this year.

Mr. Ramsay will be Treasury's top personnel officer and will be responsible for leadership and policy in personnel management throughout the Department. Treasury operates under a broadly decentralized system covering 14 operating bureaus and principal offices engaged in a wide variety of activities.

Prior to his appointment as Director of the Office of Personnel, Mr. Ramsay had served as Director, Division of Personnel Policy and Planning, Office of Personnel and Training, Office of the Secretary, Department of Health, Education and Welfare since 1967. From 1951 to 1967 he was an official with the U.S. Civil Service Commission.

Mr. Ramsay was graduated from Colgate University in 1948, and received his M.A. from Pennsylvania State University in 1952.

Mr. Ramsay is married with two daughters and lives in Vienna, Virginia.

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EMBARGOED FOR RELEASE UNTIL
12:00 NOON EDT TUESDAY, OCTOBER 9, 1973

REMARKS BY THE HONORABLE WILLIAM E. SIMON
DEPUTY SECRETARY OF THE TREASURY
BEFORE THE
NATIONAL ECONOMISTS CLUB
BLACK HORSE TAVERN
WASHINGTON, D.C., OCTOBER 9, 1973

It is certainly a pleasure for me to be with this distinguished group today. John Kennedy once remarked that "Washington is a city of northern charm and southern efficiency." I haven't lived here long enough to know whether or not his sarcasm is justified, but of one thing I am sure, Washington can be a city of controversy. Many things that are done in this town become matters of great public debate. This is especially true of two areas in which I have been deeply involved -- that is economic policy and energy. Today, I would like to discuss these two areas with you, first describing the economic policy we have been pursuing, and then, because it is so directly related to our economic needs, I would like to discuss briefly certain aspects of our energy policy.

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Economic Policy

One of my colleagues recently compiled a list of the major economic initiatives that have been undertaken by this Administration during the course of 1973. It is a rather impressive list, I think, and points out how controversial certain action taken in the economics area can be. Let me share some of the highlights with you rather briefly.

Under the economic stabilization program, we (a) moved from Phase II to Phase III in January; (b) imposed meat price ceilings in March; (c) reimposed prenotification requirements for large companies in May; (d) instituted a second freeze in June; and (e) adopted Phase IV in July and August. The pros and cons of all of these actions have been continually debated. In April, we proposed major pension and tax reforms which are aimed at greater tax equity and tax simplification. Nevertheless, these proposals have been criticized by some as too restrictive and by others as not tough enough. Also, in April and July, the President presented broad and comprehensive energy messages which are aimed at fostering a vigorous domestic energy industry. In August, the President proposed major changes in our financial system which are designed to reduce discrimination against small savers and consumer-borrowers, as well as to provide sufficient freedom in our financial markets to assure that

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various institutions have the same powers and the same flexibility. These proposals have also been heatedly debated by the interests affected.

Throughout the year a series of major actions have been taken to increase the availability of supply-short commodities, including the new farm legislation passed in August and the ongoing sale of surpluses from government stockpiles. Also, throughout the year we have put forth an all out effort to control Federal spending. Finally, we have taken major international economic initiatives including a second devaluation in Febrary; the trade reform legislation; the monetary negotiations in the Committee of Twenty here and in Nairobi; and the negotiations under the General Agreement on Tariffs and Trade in Tokyo last month.

I believe these actions add up to a very comprehensive series of proposals designed to improve our economy, and although many people disagree with some of these policies, we all agree with the goals they are aimed at achieving.

Everyone wants economic progress and most everyone agrees on what constitutes economic progress. We all want economic expansion that will give us full utilization of our manpower and other productive resources. We all want economic growth to take place at as fast a rate as possible. We all want to maintain a strong international trade position. We all want reasonable price stability. And we all want to see the benefits of our economic progress shared widely throughout our society, with equal economic opportunity available to everyone.

In the past year, the American economy has made long strides toward several of these goals. Significant gains in production and employment were achieved -- gains that even surpassed our expectations. Our Gross National Product, in fact, has risen 6.2 percent in real terms during the past year.

Our foreign trade deficit, which widened drastically to almost $7 billion last year, was cut to only $1-1/4 billion in the first half of 1973 and has been essentially in balance over the past few months. The expansion of our agricultural exports made a substantial contribution to this improvement; now our industrial trade balance will follow suit.

We have made significant steps toward reorienting international exchange market operations. Interim monetary arrangements, though they have some limitations, are working reasonably well. Negotiations on a more permanent system are well underway, and while the annual meeting of the International Monetary Fund in Nairobi left much work to be done, I am convinced that we are moving in the right direction to establish a new and more workable financial system for the world economic marketplace.

One of our major problems remains largely unresolved. That is, of course, the problem of inflation. Price performance during 1973 to date was clearly unsatisfactory. Consumer prices jumped at a 9 percent annual rate in comparison with about a 4 percent annual rate during the last half of 1972. The GNP deflator climbed at nearly a 6-1/2 percent annual rate during the first half of 1973, in contrast to only 3 percent in the last half of 1972.

Increases in food and petroleum product prices alone, accounted for almost 70 percent of the rise in the consumer price index since the end of 1972. When food and petroleum products are excluded, the consumer price index rose at an annual rate of only 3.6 percent during the first 8 months of 1973, about the same as last year.

In the face of a world-wide economic boom and burgeoning global demands on limited supplies of industrial and agricultural products, it is quite likely that little, if any, of this rise could have been avoided. Disasterous weather conditions, alone, severely reduced the availability of foodstuffs here and abroad.

In late spring and early summer, as the inflation began to exceed our worst prophesies, it became clear that strong action was necessary. On June 13, the President reimposed a temporary price freeze, and on July 18, we announced the Phase IV controls.

Phase IV is a tough program, designed to distribute the expected bulge of post-freeze prices over a period of months. The guidelines have been made as flexible as possible to meet market and supply needs. It is for this reason that Phase IV has special rules for a number of individual sectors of the economy, including food, petroleum, health-care, lumber, and state and local governments.

At the same time, the President has acted to increase supplies. He has eliminated volumetric limits on imports and has restructured our oil import program. He has removed farmers' acreage set-aside requirements to boost farm production. He has either partially or totally removed non-fat dry milk, cheese, and meat import quotas.

We are also increasing market supplies of scarce metals and other commodities by selling surplus materials from the Federal Government's stockpiles. These sales, of course, are limited by the constraints of existing laws. Hopefully, the Congress will give us added authority, consistent with our defense requirements, to place more of these short-supply raw materials on the open market.

As important as the stabilization program is to our battle against inflation, and as important as the supply actions are, we must remember that our first line of defense is responsible fiscal and monetary policies. We have had an explosion of prices in 1973, but it has been focused very heavily on food and raw industrial commodities, almost all of which are traded in international markets. It is noteworthy that the 1973 acceleration of inflation has not extended to prices of services or to wages, both of which are moving at a moderate pace close to last year's performance.

In order for this good performance in our domestic markets to continue, it is crucial that we not allow the economy to run away with itself. Economic activity has advanced this year and has approached the level of full employment, and our fiscal and monetary policies must prevent this growth from carrying too far.

There is no mystery about the correct direction for government policies during a period of inflationary pressure. Fiscal and monetary policies must work in tandem to exert a restraining influence on the economy.

Uncontrolled Federal spending must be subdued. The Congress and the Executive Branch must cooperate closely in this important effort. It was through such an effort that we were successful in holding Federal spending below $250 billion during fiscal 1973. However, we must continue our rigorous efforts to keep Federal spending in check. If we can achieve a balanced budget this year, and if the Federal Reserve continues to pursue a policy of restraint in monetary policy, I believe we can force the inflationary dragon back into its cave. Commodity inflation is reversible;

at some point supply will catch up with demand and, when that happens, commodity prices will decline. If in the meantime we can prevent the rest of the economy from getting out of hand, we will have started back down the road to reasonable price stability.

There are many pressures to overcome in achieving this goal -- price pressures, wage pressures, and budget pressures. I think they can be overcome, but I also want to emphasize that it won't be easy and it won't happen overnight.

Energy Policy

Now before closing, I would like to speak briefly about a subject which at first may seem unrelated to these other aspects of our economy, but which I feel is most relevant. I am referring to energy. This subject is often narrowly classified as a national security problem. However, after spending several months deeply involved in our energy policy, I view it as much more than that. Our security rests on our economic well-being and our economic well-being rests in a significant way on the availability of plentiful supplies of energy at reasonable cost. Recognizing the relationship between energy policy and economic conditions is essential to understanding how our economy functions.

First of all, the balance of trade impact of escalating energy imports is of great concern. Considering oil, one element of our energy industry, we see how significant it is to our balance of trade. It has been estimated that imports of foreign oil will increase from 27 percent of total U.S. consumption in 1972 to about 33 percent in 1973, to over 50 percent by 1980. As a result, in 1973, our payments outflow due to oil imports may be about $7 billion. This figure could grow to about $10 billion in 1975 and may be as much as $17 billion by 1980.

These figures, however, are only one component of our balance of payments picture, and several factors will help to offset the dollar outflow. American oil companies will continue to own or market much of the free world's oil production. Some of their profits from foreign investments will be repatriated.

In addition, most producing countries have significant import needs and will undoubtedly use some of their oil revenues to purchase goods from the U.S. or third countries.

The Department of Commerce estimates that the outflow of dollars to pay for oil imports will generate U.S. exports worth some $8.2 billion in 1980. The Department of Commerce also estimates that, in 1980, about $5.9 billion will return to the United States in the form of repatriated profits. This, plus the $8.2 billion in exports, will partially offset the $17 billion addition to foreign exchange outlays required by increased imports of foreign oil in 1980.

It is equally important to realize that estimates which project that U.S. oil imports will amount to 65 percent of consumption by 1985 have assumed a no-action policy. This is not the case. One April 18, 1973, the President presented a far reaching energy message which I see as a blueprint for action that must and will be taken. The basic goal underlying this message is to assure adequate supplies of energy in the short run, while also to reduce our dependence upon foreign supplies in the long run by fostering a vigorous domestic energy industry. As such, the President provided major incentives to energy production in the United States.

-- He proposed competitive, as distinct from regulated, price treatment of new natural gas.

-- He proposed an investment tax credit on intangible drilling costs for new domestic exploratory wells.

-- He directed the Secretary of the Interior to triple the acreage leased on the Outer Continental Shelf by 1979. The offshore areas of the United States are estimated to contain a potential of between 40 and 50 percent of our Nation's total oil and gas reserves and offer promising opportunities for future development.

-- He terminated all volumetric quotas on oil imports and substituted a license fee system for existing tariffs on petroleum and petroleum products.

Further, the President is urging rapid construction of the Alaskan 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.

I think that it is important to realize that America is blessed with an abundance of various forms of energy. Coal is our most abundant fossil fuel. At present rates of consumption, our known reserves could supply the Nation's energy needs for at least 300 years, yet coal presently supplies less than 20 percent of our energy needs. The President's policies are aimed at changing this. Major research and development efforts in gasification and liquefaction of coal will expand the use of this plentiful source of energy.

Also, we are encouraging development of new energy sources. 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. Nuclear power, one of our best alternates to oil, now provides about one percent of the Nation's energy and is estimated to account for about 10 percent of our energy requirements by

1985, and up to 30 percent by the end of the century. Development of such alternate sources of energy will help make us less reliant on oil and gas in the future.

These constructive steps outlined by the President will put us on the road to being self-sufficient in energy. Until that time, however, we will have to rely to an increasing extent on foreign sources of supply. We will be pursuing a policy of diversification with respect to our source of supply. For example, our companies are obtaining oil from Nigeria and Indonesia, and discussions are actively going on concerning natural gas and oil supplies from the Soviet Union. Further a liquefied natural gas contract has been signed with Algeria for delivery of one billion cubic feet of liquefied natural gas per day beginning in mid-1978.

Despite this, however, the fact of the matter is that the bulk of the world's oil reserves are in the Middle East. At present, this area has 67 percent of the world's known reserves.

Three countries -- Saudi Arabia, Iraq and Iran -- possess oil reserves sufficient to allow substantial increases in production above current levels. But Iran has indicated that, on the basis of its presently proven reserves, its output of crude oil will not expand much beyond eight to nine million barrels per day.

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Saudi Arabia holds the largest proven reserves of oil, about 140 billion barrels or 24 percent of the world's proven reserves. Saudi reserves are equivalent to four times U.S. reserves, including the North Slope's ten billion barrels. Thus, Saudi Arabia will play a key role in the balance between world oil supply and demand.

Two weeks ago, I met with Hisham Nazer, Minister of State and President of the Central Planning Organization of Saudi Arabia. Our discussions were frank and wide-ranging. The Saudis realize that our energy needs are substantial and are growing each year. They also realize that we cannot satisfy these needs internally and will be looking to them for supply. They are willing to provide that help -- but they seek an improvement in the political atmosphere in the Middle East and they want to insure a stable future for their country by economic diversification now. They are looking beyond the day of oil primacy to the time when alternate sources of energy will be available.

I assured Minister Nazer that we are giving serious attention at the highest levels of our government to helping Saudi Arabia meet its objectives of economic diversification and sound growth. This economic diversification will involve both industrialization of Saudi Arabia and investment abroad. As such, they will be looking for stable, secure and profitable investment opportunities. They will be seeking to protect their future by transforming their national heritage into new, and more permanent forms. Purchase of assets abroad should be the means whereby their balance of payments position and the payments positions of the United States and other major countries are brought into balance in the years ahead.

We believe that it is the common interest of both producing and consuming countries to increase world oil production and exports. We hope that the producing countries will make investments and hold reserves in a way that achieves their industrial development goals and promotes international monetary cooperation. Further, we are seeking to provide the proper climate for investment in the United States and will seek to promote U.S. exports of commodities and technical services to these countries.

I feel that the long term interests of both consumer and producer nations will be served best by an open system in which all those capable of finding, developing and marketing oil resources can have an opportunity to do so. Nationalization without prompt adequate and effective compensation by producing nations, bilateral deals between producing and consuming governments, and any other steps which dry up capital or freeze out experienced oil organizations, will be counter-productive to all.

In an historical time frame, 20 years is but a moment The investments and particularly the relationships that are developed by the producing states during this period of oil's primacy will set their prosperity for succeeding generations when reliance on oil will not be as great.

Just as with the operations of our economy, what is needed with respect to energy policy is better public understanding. We will be dependent on foreign supply in the short term and this dependence will surely have a direct bearing on our new monetary system and will surely be central to our balance of payments. However, by carrying out the policies outlined by the President, we will foster a vigorous domestic energy industry. We have the capacity and resources to meet our energy needs, and by doing so we will provide the proper climate for stable economic growth.

Thank you.

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

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HIGHLIGHTS OF AN ADDRESS BY
GEORGE P. SHULTZ
SECRETARY OF THE TREASURY OF THE UNITED STATES OF AMERICA
BEFORE
DIE DEUTSCHE GESELLSCHAFT FUER AUSWAERTIGE POLITIK
BONN, GERMANY, OCTOBER 5, 1973

THE POLITICAL IMPLICATIONS OF
INTERNATIONAL MONETARY REFORM

The technical aspects of monetary reform are vital and have received much public discussion. But they will not be the primary concern of Finance Ministers and their superiors.

To insure that any monetary agreement is politically acceptable -- so that it will be ratified -- and politically workable -- so that it will endure -- is the unavoidable responsibility of Finance Ministers and of Chancellors and President.

In Nairobi we were able to publish a record of considerable progress; we agreed on a reasonable deadline, July 31, 1974, for agreement in principle on all major issues; we instructed our Deputies to set up a number of working groups to appraise the operational aspects of various specific proposals.

We had been able to build on consensus on certain basic points:

-- That an individual nation needs substantial flexibility in choosing among alternative policies for achieving its basic goals.

-- That the international community should have the capacity to insist upon respect for the requirements of an international order, and

-- That there must be agreement on some basic guidelines to be employed in international review of national policies.

If in the future we are to avoid jolting monetary changes and limitations on international trade and investment, the guidelines will have to meet a number of political requirements.

-- The monetary guidelines will have to be set in a framework of international rules that are seen to be fair to all;

-- They must be sufficiently precise that international decision will not be too long delayed;

-- If there is to be wide acceptance of decisions to over-ride or not to over-ride the guidelines in specific instances, the decisions will have to be made by officials clearly acting with the authority of their governments;

-- The guidelines must not interfere unnecessarily in national decision-making; and

-- The guidelines should not be made very detailed just for theoretical perfection where such detail is not essential.

Obviously, there are also basic economic prerequisites for the success of any new International Monetary Agreement:

-- Governments must explain their policies and forecasts, so that wide differences do not develop between the exchange market predicitions of governments and the predicitions implied by the actions of the market participants, and

-- Governments must demonstrate far more effectiveness in fighting inflation in the coming years than they have shown in recent years.

Fortunately, governments are displaying a new determination to master inflation, but the world has not yet been made safe for a rational international monetary system.

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There are hopeful signs:

-- In recent weeks there have been striking reductions in the prices of major agricultural products;

-- The U.S. has been able to terminate its agricultural export controls;

-- Budgetary restraint is the order of the day in a number of countries, including the United States;

-- In the United States monetary growth has been sharply curtailed;

-- The U.S. payments position is strongly improving, not only because of the marked strengthening of the trade balance, but also because of a resumption of the flow of private investment to the U.S. We welcome this flow whether it be in portfolio form or in direct investment in U.S. operations.

We are moving toward circumstances which will permit implementation of new International Monetary arrangements. When that time comes we must present the world an agreement that is economically workable and politically acceptable.

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FOR IMMEDIATE RELEASE October 9, 1973

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $4,300,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing October 18, 1973, in the amount of $4,301,210,000 as follows:

91-day bills (to maturity date) to be issued October 18, 1973, in the amount of $2,500,000,000, or thereabouts, representing an additional amount of bills dated July 19, 1973, and to mature January 17, 1974 (CUSIP No. 912793 SU1) originally issued in the amount of $1,700,715,000 the additional and original bills to be freely interchangeable.

182-day bills, for $1,800,000,000, or thereabouts, to be dated October 18, 1973, and to mature April 18, 1974 (CUSIP No. 912793 TH9).

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, October 15, 1973. Tenders will not be received at the Treasury Department, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

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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 October 18, 1973, in cash or other immediately available funds or in a like face amount of Treasury bills maturing October 18, 1973. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder must include in his income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

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

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

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EMBARGOED FOR RELEASE UNTIL
3:00 P.M. WEDNESDAY, OCTOBER 10, 1973

REMARKS BY THE HONORABLE WILLIAM E. SIMON
DEPUTY SECRETARY OF THE TREASURY
BEFORE THE
NATIONAL BANKERS ASSOCIATION
46TH ANNUAL CONVENTION
MCCORMICK INN
CHICAGO, ILLINOIS, OCTOBER 10, 1973

I am delighted to have the opportunity to participate in your program today -- in particular because I have such a great admiration for the spirit and determination exhibited by the individuals who make up the membership of the National Bankers Association. It's hard for me to believe that I have been in Washington for ten months now. During that time, I have become very involved in the minority bank program as well as a wide range of other public policy issues. Despite their diversity, all these issues touch in one way or another, upon two common themes: the need for greater economic discipline and the need for much wider understanding of how our economy operates. Today, I would like to discuss with you the progress of the minority bank deposit program. Also, I would like to review our recent proposals for restructuring our financial institutions. In so doing, I would like to describe the role which interest rates play in our economy and the effect which various economic conditions have on interest rates and the financial climate in general.

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Minority Bank Program

Ten years ago, minority banking was a rarity. Three years ago, it was still a novelty. Today, minority-owned banks are a respected part of our financial community.

The past three years have witnessed a truly dramatic growth in the minority banking industry. On October 2, 1970, the President initiated a bank program with the objective of stimulating the growth of minority banking and fostering economic growth in minority communities. The goal for the first year was to generate $100 million in new deposits for minority controlled banks. Skeptics doubted that the $100 million goal of the National Minority-Owned Bank Deposit Program was attainable. However, the 31 original banks reached out at the opportunity, and proved them wrong. Through their hard work and enthusiasm and a cooperative effort by the government, deposits the first year climbed $147 million to reach a total of $551 million. It is a credit to these banks that over two thirds of the new deposits represented increased deposits from the private sector. In addition, during the first year of the President's program, four new minority banks were chartered.

The subsequent rapid growth of the minority-owned banking industry is one that should be a source of pride for you. Two years into the program, there were 43 minority banks with total deposits of $871 million. It is now three years since

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the program was launched. I know it pleased you as much as it pleased me to learn that minority banking is now a billion-dollar industry. On June 30, 1973, the deposits of minority-owned banks surpassed $1 billion. By any standard, those numbers represent phenomenal growth. Although government efforts played a role in this growth, it is evident that your agressive marketing and determination was a central ingredient.

I would like to take a few minutes now to review what the government has recently been doing in this program. Shortly after my arrival at Treasury, we were faced with a problem in sustaining the level of government sector deposits with minority banks. Some government programs that had contributed significant deposits, such as those administered by the Office of Economic Opportunity, were being cut back, and this resulted in a reduction of their deposits. We contacted all government agencies pointing out this problem and requested their assistance. The government agencies have been most responsive and as of June 30, 1973, government sector deposits with minority banks reached an all-time high of more than $80 million.

Another step that we recently took was to review the minority bank deposit program with the aim of discovering ways in which it may be improved. The project was undertaken by Dr. Cecil G. Gouke, Professor of Economics at Hampton Institute who has been working as a consultant for the Treasury.

The study took the form of sending questionnaires to all minority banks as well as conversations with present and former government officers familiar with the program. We were particularly interested in getting comments from the banks themselves as to what we might do to increase the benefits of the program.

The responding banks unanimously considered the program to be a success and urged its continuation. I would like to read a comment from one bank which I believe typifies the bank's attitude toward the program. I quote:

> "The government bank deposit program has been one of the most successful actions taken to improve minority business in America. I hope that the federal government's commitment to this program will be expanded with the same commitment that you have displayed in the past. If several more years of this effort are maintained, you will have created a new viable industry which will have a great impact on the lives of blacks and other minorities."

We are now studying your recommendations with the intent of improving the deposit program while keeping it directed toward the original goals of increasing minority banking and economic growth in minority communities.

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Some of you suggested the elimination of the 100 percent collateralization requirement. As you know, all banks maintaining accounts of public moneys of the United States must pledge collateral as security for that part of the balance of each account in excess of coverage by the Federal Deposit Insurance Corporation. This practice was established to assure the safety of government deposits and would be difficult to modify for minority banks or for any other banks.

Several banks suggested the feasibility of distributing government deposits more evenly among the minority banks and we are trying to implement this recommendation. There are obvious geographical limitations in accomplishing this goal. Most government accounts are operating accounts of government agencies and government contractors and grantees. Such accounts must be maintained with banks located reasonably close to the office maintaining the account. It is a fact, therefore, that banks located in the major populated centers receive the greater portion of deposits. However, location is not a factor with respect to Certificate of Deposits maintained by various quasi-government entities, and we are trying as much as possible to channel such funds in a way that would equalize deposits among minority banks.

All of the comments we received from you during our review made it clear that you are concerned about the future of minority banking. We whole-heartedly support the idea that the public as well as government agencies be kept informed about the deposit program, about the needs of minority banks, and above all, about your capability and willingness to serve their needs. I personally am optimistic about your future, provided you sustain the individual effort that has propelled you so far so fast and do not rely solely on the government to carry you through difficult times. Minority banking will be successful only if it has the ability to stand on its own feet.

It is also important that you bear in mind that your institutions can only be as good as the people you employ. I want to emphasize this because there is a shortage of people from minority groups qualified in banking. I urge you to take advantage of any special training programs that are made available to banks and bankers in nearly every city across the country: for example, the director training program last summer which was so successful; the executive management training program sponsored by your organization and the American Bankers Association; and other programs sponsored by universities and segments of the banking industry. I would also like to encourage you to communicate to minority students that there is a great future in banking.

Financial Conditions and Interest Rates

In order to understand what that future holds, I think it is important to realize that our financial institutions have been operating under a system that is outdated in many respects. Events during the last decade have revealed significant defects in our financial markets in general and our financial institutions in particular. The credit crunch of 1966, the monetary and gold crises of 1968 and the severe squeeze of 1969-1970 illustrate that our system does not adjust well to short-term changes in economic and financial conditions.

Nevertheless, the pattern of financial reform in the past has been a series of ad hoc changes instead of meaningful, permanent reform. Recently, for instance, with interest rates rising, some people suggested that it would help the economy to directly control interest rates. Now, all of us will readily agree that moderation is required in interest rates, and that some self-discipline is required to achieve this. We want interest rates to stay at reasonable levels to encourage business investment and enhance economic growth.

But at the same time, we must recognize the special role interest rates play in regulating our economy. Credit is a crucial resource, because it is used by every sector of the economy. It is needed by every business to finance new plant and equipment, to finance the acquisition of inventories, and to provide working capital. But like all other resources, credit is a scarce commodity. When everybody wants more credit, there isn't enough to go around. Indeed, we would not want an unlimited supply of credit to be available, because an overabundance of credit will very quickly send the economy into inflationary orbit.

Accordingly, when the economy approaches its full potential, the demand for funds increases, and credit increases. When this happens, credit has to be rationed in some way. One method the free market uses to ration credit is to put a higher price on it -- that is, higher interest rates. Those higher rates act as a stabilizer, putting a damper on excessive spending.

Interest rate controls, on the other hand, far from helping the economy, actually distort it. All our experience demonstrates that. As you know, the Government attempted early this year to limit the rise in the "prime" lending rate of commercial banks. This was quickly followed by distortions in the credit markets. Many corporations turned away from their normal sources of short-term financing, which had become relatively high-cost sources, and applied to the banking system for artifically low-cost funds. Another result of the controls on the prime rate was that some corporations borrowed from one bank and used these funds to purchase higher-yielding certificates of deposit from another bank. In addition, smaller commercial banks loaned their available funds at high interest rates to the hard-pressed money center banks, instead of pursuing their basic responsibility of accommodating the legitimate credit requests from their local customers.

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Another control mechanism which has further distorted the economic picture has been the limitation on interest rates on consumer time and savings deposits. These restrictions were first imposed in the 1930's in the mistaken belief that excessive interest rate competition among financial institutions caused the bank failures of the era. However, the principal effect of these controls has been to deprive small savers of a fair interest return on their savings deposits. Large savers have always had alternative means of placing their savings. As you know, the Government moved this year to mitigate this type of discrimination against small savers by raising the permissible interest rate limits on time and savings deposits at commercial banks and thrift institutions. At present, however, the maximum that commercial banks and savings and loan associations may pay on their savings accounts is still only 5 percent and 5-1/4 percent, respectively. As a result, consumers are receiving 5 and 5-1/4 percent on their savings while consumer prices have been rising at an annual rate of 9 percent.

Recommended Reforms in Financial System

Recognizing the need to reduce such discrimination against small savers and consumer-borrowers as well as the distortions created by past control devices, the President recently recommended basic changes in our financial system.

They are founded on the assumption that the public interest is better served by the free play of competitive forces than by the imposition of rigid and unnecessary regulation. If our proposed recommendations become law, it will be the first time in over 100 years that a major restructuring of the nation's financial system occured without an environment of crisis.

In developing our recommendations, we have focused on removing unworkable regulatory procedures, as well as inherent inflexibilities, and providing additional powers for the various types of institutions. At the same time, we have given careful attention to the continued soundness and safety of our financial system.

The recommendations, which cover seven major areas, may be highlighted as follows:

(1) Interest ceilings on time and savings accounts should be phased out over 5-1/2 years, while the prohibition against interest on demand deposits should remain.

(2) Deposit services provided by federally chartered thrift institutions and banks should be expanded. Federal thrift institutions should be permitted to extend N.O.W. account, demand account and credit card services to all customers, and national banks should be able to provide corporate savings accounts and N.O.W. accounts to all customers.

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(3) Lending and investment services provided by federal thrift institutions should be extended so that they may make real estate and construction loans on an expanded basis; so that they may make consumer loans; and so that they may acquire high grade corporate debt, all on a limited basis.

(4) Federal charters should be available for mutual savings banks and stock savings and loan associations.

(5) Credit unions should be provided with greater access to funds.

(6) FHA and VA interest ceilings should be removed.

(7) In order to achieve tax neutrality, the special tax provisions applicable to thrift institutions should be eliminated and a mortgage tax credit should be available to all lenders.

Analysis of the recommendations in their detailed form will show that competition and efficiency are to be achieved by placing deposit institutions on equal footing in three essential areas: (1) deposit powers; (2) asset powers; and (3) taxes.

We are not proposing to give additional non-financial powers to financial institutions. Rather, equal footing will be achieved by a significant expansion in the ability of thrift institutions to offer deposit, lending and investment services. Just as important is the removal of current biases in the tax treatment of major deposit institutions and the creation of tax neutrality so that institutions engaging in the same activities -- mortgage lending for example -- will compete on an equal basis.

In a free economy built on competition, the existence of the present restraints on deposit institutions stands as a central deficiency in the present financial system. The strains which today's financial conditions are imposing on the system serve as warnings that reform is urgently needed.

Restrictions cause distortions which strain financial institutions. For example, it is clearly counterproductive for financial institutions, and unfair to consumers, to have legislated limits on the rates of interest that can be paid on time and savings deposits. During periods of rising interest rates on lending, artificial limits on the return paid to consumers for deposits causes new deposits to dry up, while existing deposits take flight to securities bearing higher interest rates. This situation forces institutions to seek relief from the government. A freer market would allocate financial resources more efficiently at less cost to small depositors and borrowers.

It is also important to understand that the additional powers we are recommending are not going to be imposed on financial institutions. The institutions will have the

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flexibility to continue specialization if that is their desire and will have the capability to tailor their services to meet the specific needs of their communities.

Consumers will benefit from the recommended reforms because they will generally be provided financial services at a lower cost, as well as a market or near-market rate of return on their savings. Borrowers will have greater assurance of credit when they need it, and at reasonable rates. The result will be a more efficient financial system, with the institutions having greater flexibility to compete and also an increased capacity to stand on their own feet without the government.

Conclusion

In closing, I would again say that I am optimistic about the future of minority banking. Of course, your future is in large part dependent on the climate that results from the economic policies adopted by the Federal government.

As such, our economic goals are ambitious. We wish to see the benefits of improved economic well-being widely dispersed. We wish to subdue inflation. We wish to have a strong international competitiveness. To achieve these goals, however, it is critical that we have fiscal discipline -- not only the discipline of the market place, but also self-discipline exercised by responsible business and labor leaders. We also recognize that this discipline must start at home and that to achieve full employment and non-inflationary growth, we must attack our greatest enemy -- uncontrolled federal spending.

There is no mystery as to the correct direction for policies during a period of intense inflationary pressure as we have been experiencing. 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. It is critical that the Congress and the Executive Branch cooperate closely in this important effort. It was through such an effort that we have been successful in holding federal spending below $250 billion during fiscal year 1973. Although there have been many differences between the Congress and the Administration over specific federal program cutbacks and spending reductions, the important point is that our spending goal was achieved.

Further fiscal restraint, however, is imperative, and we must continue to exert that restraint on expenditures. We have estimated that fiscal 1974 revenues will approximate

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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.

One of our major problems, however, remains largely unresolved. That is, of course, the problem of inflation. Price performance during 1973 to date was clearly unsatisfactory. Consumer prices jumped at a 9 percent annual rate in comparison with about a 4 percent annual rate during the last half of 1972. The GNP deflator climbed at nearly a 6-1/2 percent annual rate during the first half of 1973, in contrast to only 3 percent in the last half of 1972.

A number of factors combined to trigger this burst of inflation. Perhaps the single most important element over the past year has been the reduction in available supply of food because of bad weather and in some cases disasterously poor crops here and abroad. A second major element in the inflation problem is the world-wide economic boom. Every industrialized country has been simultaneously experiencing strong economic growth and this unusual development has put great pressure on the supplies and prices of industrial raw materials.

We have taken and will continue to take necessary steps to moderate inflation. Phase IV will help. 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.

Further, we are taking action to increase supplies in those sectors of the economy where shortages created upward pressure on prices and costs. These actions include the removal of acreage set-aside requirements for farmers; removal of import quotas on oil; and the partial or complete removal of import quotas on non-fat dry milk, cheese, and meat. We have also -- within the limits imposed by current laws -- sold scarce metals and other commodities no longer needed in the Federal Government's stockpiles. We are hopeful that the Congress will provide authority for the sale of additional materials from stockpiles where the commodities exceed our national security requirements. Their availability in the open market will provide needed raw materials, many currently in short supply, thereby reducing inflationary pressures.

By coupling these measures aimed at increasing supplies with sound fiscal and monetary policies, we will win the battle against inflation. Further, if our recommendations for changing the structure of our financial institutions are adopted, your industry will be better able to operate

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normally through periods of economic change. I feel there is a good environment for further expansion of minority banking. We will continue to encourage its growth as we seek to provide you with the best opportunity to contribute to and compete in our free enterprise system. In the final analysis, however, it is up to you. You must strive to stand on your own feet. The government will continue to assist you in this effort, recognizing that minority banking is in a period of growth and thus will need guidance; but the government role must ultimately be minimized if your industry is to thrive. As such, you hold the key to the permanent success of minority banking. I believe that you will accept this challenge and succeed.

Thank you.

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FOR IMMEDIATE RELEASE October 10, 1973

MATTHEW J. MARKS
and
BEN L. IRVIN
NAMED TO TREASURY POSTS

Secretary of the Treasury George P. Shultz announced today the appointment of Matthew J. Marks of Falls Church, Virginia, as Deputy Assistant Secretary for Tariff and Trade Affairs. In his new position Mr. Marks reports to Assistant Secretary for Enforcement, Tariff and Trade and Operations, Edward L. Morgan.

Mr. Marks was formerly Deputy to the Assistant Secretary and Director of the Office of Tariff and Trade Affairs.

Mr. Marks will have greater policy-making responsibilities in the fields of antidumping and countervailing duties, and the tariff and trade field in general insofar as it relates to administration of the laws falling within the responsibility of the Bureau of Customs.

In a simultaneous announcement, Secretary Shultz announced that Mr. Ben L. Irvin of Laurel, Maryland, has been appointed the Director of the Office of Tariff and Trade Affairs, succeeding Mr. Marks.

Mr. Irvin was formerly Chief of the Appraisement Branch, Appraisement and Collection Division, U.S. Customs Service.

In his new position, Mr. Irvin will report directly to Mr. Marks. The Director serves as a principal support for the Deputy Assistant Secretary in all tariff and trade matters including the administration of the antidumping and countervailing duty laws and regulations.

Biographies of both men are attached.

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MATTHEW J. MARKS
Deputy Assistant Secretary
(Tariff and Trade Affairs)

Matthew J. Marks has been with the Treasury Department since December 1941, with the exception of approximately two years (between April 1962 and July 1964), when he served with the Department of State and AID.

Since June 1967, Mr. Marks has been Deputy to the Assistant Secretary. He served in this capacity under three successive Assistant Secretaries.

During his assignment with AID, Mr. Marks was involved extensively in international conference work with member Governments of regional economic organizations, particularly those situated in the Far East.

During 1956 to 1960, Mr. Marks reported directly to the Honorable Fred C. Scribner, the then Under Secretary of the Treasury, and was responisible to him for all matters pertaining to the Operations Coordinating Board (OCB). The responsibility of the OCB related to interdepartmental coordination of national security policy as laid down by the National Security Council.

Among the Treasury posts Mr. Marks has held prior to 1956 were those of Chief of Enforcement, Foreign Assets Control; U.S. Treasury Representative in Brussels, Belgium; and Senior Attorney in the Office of the General Counsel, specializing in international financial problems.

Mr. Marks was born in New York City in 1914. He was graduated with a B.A. degree, Summa Cum Laude from Dartmouth College in 1936, and was named to Phi Beta Kappa. He holds a Juris Doctor degree from Columbia Law School, 1941, and attended the National War College in 1955-56. He is a member of the Bar of the State of New York.

He has written articles in the Columbia Law Review and the Department of State Bulletin.

In January 1969 Mr. Marks was awarded the Exceptional Service Award by the Secretary of the Treasury.

Mr. Marks is married to the former Simone Van de Meulebroeke of Brussels, Belgium. They have one son, Ramon, who is presently a student at the University of Virginia Law School. Mr. and Mrs. Marks reside at 5938 Sixth Street, Falls Church, Virginia, 22041.

OCTOBER, 1973

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BEN L. IRVIN
Director
Tariff and Trade Affairs

Ben L. Irvin has been with the Treasury Department since June 1973, and with the U.S. Customs Service since July 1963.

Before coming to Treasury as the Director, Office of Tariff and Trade Affairs, Mr. Irvin was Chief of the Appraisement Branch, Appraisement and Collections Division, U.S. Customs Service.

During his assignment with the U.S. Customs Service, Mr. Irvin was involved with and responsible for the development, revision and implementation of all field appraisement procedures pertaining to examination, classification and appraisement of merchandise. He coordinated the statistical verification program involving reporting of import statistics with staff members of the Census Bureau and the Tariff Commission. He represented the U.S. Customs Service on policy and planning committees responsible for implementation of special programs; for example, the Interagency Textile Administrative Committee; the Interagency Committee on Foreign Trade Statistics; and the Committee for Statistical Annotation of the Tariff Schedules.

Among the U.S. Customs Service posts Mr. Irvin has held since 1963 were those of Operations Officer, Technical Branch (Dumping); Customs Law Specialist, Division of Tariff Classification Rulings; and Customs Examiner, Port of Baltimore.

Mr. Irvin was the Customs Cooperation Council Representative to the Plenipotentiary Conference to Conclude and International Convention deterring international trafficking of endangered species in February 1973 held in Washington, D.C.

Mr. Irvin was born in Altoona, Pennsylvania in 1935. He was graduated with a B.A. Degree from the Pennsylvania State University in 1961. He holds an LLB Degree from the University of Baltimore Law School, 1965. He is a member of the Bar of the State of Maryland; the Federal Bar Association; the Customs Lawyers' Association; and the Maryland State Bar Association.

He is also admitted to the Maryland Court of Appeals; United States Customs Court; and the U.S. Court of Customs and Patent Appeals.

Mr. Irvin is married to the former Norma Elaine McElroy of Altoona, Pennsylvania. They and their four children reside at 6915 Fitspatrick Drive, Laurel, Maryland, 20810.

OCTOBER, 1973

Department of the TREASURY
WASHINGTON, D.C. 20220 TELEPHONE WO4-2041
NEWS
THE DEPARTMENT OF THE TREASURY 1789

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FOR IMMEDIATE RELEASE October 11, 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 October 23, 1973 , in the amount of $1,802,480,000. The bills of this series will be dated October 23, 1973 , and will mature October 22, 1974 (CUSIP No. 912793 TY2).

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, October 17, 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 October 23, 1973, in cash or other immediately available funds or in a like face amount of Treasury bills maturing October 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.

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

2-83

FOR IMMEDIATE RELEASE October 11, 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 all three cases, there are determinations of sales at less than fair value. Notices of the decisions with regard to primary lead metal from Australia and metal punching machines from Japan will appear in the Federal Register of October 12, 1973. Notice of the decision concerning primary lead metal from Canada will appear in the Federal Register on October 15, 1973.

In the two primary lead metal cases, Assistant Secretary Morgan announced that imports of this metal from Canada and Australia are being, or are likely to be, sold at less than fair value within the meaning of the Antidumping Act. Primary lead metal is used in the production of storage batteries, pigments and chemicals, including gasoline additives. Both cases now will 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 determinations of injury, dumping duties will be assessed on all entries of primary lead metal from Canada and Australia which have not been appraised and on which dumping margins exist. A notice of "Withholding of Appraisement" was issued on July 27, 1973, in the Canadian case, and on August 2, 1973, in the Australian case. Both notices stated that there was reasonable cause to believe or suspect that there were sales at less than fair value. During the year beginning July 1972, imports of primary lead metal from Canada were valued at approximately $18 million. For the same period, imports of this metal from Australia were valued at approximately $9 million.

In the third case, the Treasury announced that metal punching machines from Japan are being, or are likely to be, sold at less than fair value within the meaning of the Anti-dumping Act. These machines are used primarily for punching

OVER

round and shaped holes in metals of various thicknesses and producing duplication of sizes. As in the first two investigations, this case now will be referred to the Tariff Commission and, in the event of an injury determination, dumping duties will be assessed on all entries of these machines which have not been appraised and on which dumping margins exist. A notice of "Withholding of Appraisement" was issued on August 10, 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 metal punching machines from Japan were valued at approximately $106,000.

# # #

UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH September 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
...TURED				
Series A-1935 thru D-1941	5,003	4,999	4	.08
Series F and G-1941 thru 1952	29,521	29,500	21	.07
Series J and K-1952 thru 1957	3,754	3,747	7	.19
...MATURED				
Series E 3/ :				
1941	1,925	1,742	183	9.51
1942	8,499	7,675	824	9.70
1943	13,666	12,360	1,306	9.56
1944	15,945	14,355	1,590	9.97
1945	12,555	11,163	1,392	11.09
1946	5,729	4,940	788	13.75
1947	5,463	4,581	882	16.14
1948	5,665	4,675	990	17.48
1949	5,624	4,564	1,060	18.85
1950	4,937	3,954	983	19.91
1951	4,270	3,420	850	19.91
1952	4,479	3,562	917	20.47
1953	5,132	4,003	1,129	22.00
1954	5,233	4,027	1,205	23.03
1955	5,453	4,160	1,293	23.71
1956	5,272	3,989	1,283	24.34
1957	4,975	3,718	1,257	25.27
1958	4,867	3,546	1,321	27.14
1959	4,572	3,293	1,279	27.97
1960	4,597	3,223	1,374	29.89
1961	4,690	3,169	1,521	32.43
1962	4,566	3,003	1,563	34.23
1963	5,134	3,184	1,949	37.96
1964	5,004	3,110	1,894	37.85
1965	4,893	3,011	1,882	38.46
1966	5,287	3,107	2,180	41.23
1967	5,200	3,046	2,154	41.42
1968	4,939	2,841	2,099	42.50
1969	4,649	2,575	2,074	44.61
1970	4,868	2,391	2,477	50.88
1971	5,604	2,328	3,276	58.46
1972	6,171	1,999	4,172	67.61
1973	3,678	607	3,070	83.47
Unclassified	378	375	3	.79
Total Series E	193,918	141,698	52,220	26.93
Series H (1952 thru May, 1959) 3/	5,485	4,003	1,481	27.00
H (June, 1959 thru 1972)	9,261	3,127	6,135	66.25
Total Series H	14,746	7,130	7,616	51.65
Total Series E and H	208,664	148,828	59,836	28.68
All Series: Total matured	38,278	38,246	32	.08
All Series: Total unmatured	208,664	148,828	59,836	28.68
All Series: Grand Total	246,942	187,074	59,868	24.24

...des accrued discount.

...ent redemption value.

...ption of owner bonds may be held and will earn interest for additional periods after original maturity dates.

Form PD 3812 (Rev. Jan. 1973) – Dept. of the Treasury – Bureau of the Public Debt

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THE SECRETARY OF THE TREASURY
WASHINGTON 20220

October 12, 1973

Dear Mr. Speaker:

There is transmitted herewith a draft bill, "The Financial Institutions Act of 1973."

This bill is designed to eliminate the defects in the operation of the country's financial institutions which have been revealed over the last decade. We have for too long merely patched up our existing laws relating to financial institutions. The country deserves a thorough and punctual review leading to a renovation of the services which banks and thrift institutions can offer to their customers. The President's proposals will eliminate government regulation which has impeded the efficiency of our financial system, while retaining those safeguards which are vital to solvency and liquidity.

Consumers and small savers will benefit by freer competition among financial institutions, which will offer the public a fair return on their savings when government ceilings are allowed to be removed. Moreover, these savers will be informed on the benefits of their savings because of the truth-in-savings disclosure requirements included in the bill. There will also be a choice of more financial institutions offering consumer related services such as checking accounts, consumer loans, and housing loans.

The proposals to strengthen and revitalize our financial institutions may be divided into seven major areas:

(1) Interest ceilings on time and savings deposits will be removed over a 5-1/2 year period, and truth-in-savings disclosure will be required.

(2) Expanded deposit services for consumers by federally chartered thrift institutions and banks will be permitted.

(3) Investment and lending alternatives for federally chartered thrift institutions and banks will be expanded.

(4) Federal charters for stock savings and loan institutions and mutual savings banks will be permitted.

(5) Credit union services will be expanded while remaining consistent with their status as tax-exempt institutions.

(6) FHA and VA interest ceilings will be removed.

(7) The tax structure of banks and thrift institutions will be modified.

The modernization of our financial institutions is a matter which touches each and every American and is one where I am looking forward to a close cooperation between the Executive Branch and the Congress to insure that our country is provided the finest financial system possible.

There are also enclosed copies of a section-by-section analysis which explains the provisions of this draft bill.

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

Sincerely yours,

George P. Shultz

George P. Shultz

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

2-87

Department of the TREASURY NEWS
[WASH]INGTON, D.C. 20220 TELEPHONE W04-2041

October 11, 1973

MEMORANDUM FOR THE PRESS:

Attached is the proposed legislation entitled "Financial Institutions Act of 1973," sent to the Congress to carry out the recommendations made by President Nixon on August 2, 1973.

The material includes:

1. A short summary (5 pages).
2. A section-by-section analysis ("The Report") (60 pages).
3. The text of the proposed legislation (56 pages).
4. A reference table (6 pages).

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SHORT SUMMARY OF

FINANCIAL INSTITUTIONS ACT OF 1973

Treasury Department
October 11, 1973

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ERRATA

NOTE

In the "Short Summary" -- the first section -- the explanation for Title Seven (Uniform Tax Treatment of Financial Institutions) is so short you may wish to refer to the details of the tax credit on pages 37, 38, 39 and 40 of the Section-by-Section Analysis ("The Report").

-0-

In "The Report" section, page 39, line 12, read it 1/30th of 1 percentage point (instead of 1/3 of 1 percentage point).

This same correction is required on page 49, line 9.

(The legislation itself has the correct percentage).

-0-

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Title One - Payment of Interest On Deposit Accounts

This title adds the Secretary of the Treasury to the present consultative committee which will continue to prescribe rate ceilings only for five years and six months after enactment of this Act. The appropriate supervisory agencies will prescribe ceilings which will, eighteen months after enactment of this Act, begin to eliminate differentials between commercial banks and thrift institutions by four annual increases, not necessarily equal, and not necessarily on the same day each year, in rates of interest which commercial banks may pay on deposits.

Interest rate ceilings on negotiable order of withdrawal accounts (N.O.W.) may differ from ceilings on other accounts but may be no greater than the ceilings on passbook accounts at commercial banks. N.O.W. ceilings will be uniform for banks and thrift institutions.

Demand deposit accounts, negotiable order of withdrawal accounts and savings accounts may be offered at all banks and thrift institutions to all customers.

The payment of interest on demand deposits will remain prohibited for all institutions.

In addition, this title adds truth-in-savings provisions which will require disclosure by commercial banks and thrift institutions to all depositors.

Title Two - Expanded Deposit Liability Powers and Reserves

This title provides federal thrift associations with third party payment authority, including negotiable order of withdrawal accounts (N.O.W.), with access to the check clearing process, and with authority to engage in credit card operations. These new powers of thrift associations would be similar to powers of commercial banks.

Banks will be empowered to offer savings accounts and N.O.W. accounts to all customers, individual and corporate. Commercial banks may presently offer savings accounts only to individuals.

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 Federal Reserve Board after consultation with the Federal Home Loan Bank Board. State chartered savings and loan associations insured by the Federal Savings and Loan Insurance Corporation 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.

Title Three -- Lending and Investment Powers

This title would permit increased income and liquidity for thrift institutions through portfolio diversification and the acquisition of shorter term assets. Liberalization of restrictions would be made in the areas of consumer loans, real estate loans, construction loans, community welfare and development investments, and commercial paper and corporate debt securities investments.

National banks would have liberalized powers with respect to real estate loans and a leeway authority for community welfare and development investments.

In addition, the Federal Reserve Board would be granted more flexible authority to define assets eligible for discount, and the Federal Home Loan Bank Board would have expanded authority to define the types of assets eligible as collateral for Federal Home Loan Bank advances to thrift institutions.

Title Four -- Charter and Thrift Institutions

This title strengthens the dual banking system by authorizing stock thrift institutions at the federal level, just as stock institutions are now permitted at the state level. The Federal Home Loan Bank Board will be empowered to charter stock thrift institutions, which will have powers identical to those possessed by mutual savings and loan institutions. These thrift institutions will be called either Federal Savings and Loan Associations or Federal Savings Banks.

Federally chartered and state chartered mutual institutions may convert to federal stock institutions and federally chartered mutual instituions may convert to state stock institutions, subject to approval of the Federal Home Loan Bank Board pursuant to its regulations. State institutions which convert to federal institutions may retain their life insurance, equity investments

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and corporate bond investments.

Title Five -- Credit Unions

This title modernizes the federal law dealing with credit unions. In addition to technical amendments, the title liberalizes certain credit union powers and facilitates credit union operations in different economic periods, e.g., by permitting, with the approval of the Administrator of the National Credit Union Administration, loan rates to be more than the present statutory 1 percent per month.

To deal with periods of severe credit restraint or emergency events, such as a plant closing, a Central Discount Fund is established for federally- or state-insured credit unions. The Fund is created solely to provide funds to meet emergency and temporary liquidity problems. The Fund will be administered by the Administrator of the National Credit Union Administration.

Title Six -- Government Insured and Guaranteed Mortgage Loans

This title corrects the situation, which has existed for some time, of restricted funds for housing because of governmental attempts to keep interest costs artifically low. The administrative interest ceilings placed upon Federal Housing Administration -- insured and Veterans Administration -- guaranteed mortgage loans have resulted in the widespread use of "points" and the general unavailability of funds through these mediums. The removal of interest rate ceilings on FHA and VA loans should result in more adequate funds to solve the nation's housing problem.

Title Seven -- Uniform Tax Treatment of Financial Institutions

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 objective of Title VII is a uniform tax formula for all financial institutions. A tax neutrality is sought, such 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. Differences in tax treatment and thus, overall tax burden and effective rates of taxation among financial institutions will continue to exist. These differences will result from a combination of three factors: (1) the form of the institution, i.e., mutual bank versus capital stock corporation; (2) federal and state regulations which will grant certain types of institutions the power to make certain investments and engage in certain activities which are denied to other institutions; and (3) the extent of utilization by an individual institution of the powers granted to it.

Under current law a subsidy is provided for the residential mortgage market through special bad debt reserve deductions for thrift institutions. Consistent with the objective of a "uniform tax formula," this subsidy should be eliminated. If the current subsidy for the residential mortgage market and hence for the housing industry is eliminated, an alternative incentive to insure a continued flow of capital from the private sector into the residential mortgage market could be provided for all taxpayers, not just thrift institutions. In addition, such an incentive would provide a mechanism whereby thrift institutions could be compensated for the tax benefit which would be lost via elimination of the current special bad debt reserve provisions.

In providing a "uniform tax formula" for financial institutions the principal area of current law which would be affected is those provisions relating to deductions for additions to a reserve for losses on loans. Currently, thrift institutions under section 593 of the Internal Revenue Code are allowed to compute reserve additions for qualifying real property loans on the basis of a percentage of taxable income. The 1969 Tax Reform Act reduced the applicable percentage over a ten-year period from 60 percent to 40 percent. In addition, deductions are limited by an overall limitation on the size of the reserve (6 percent of outstanding loans). If more than 18 percent of a thrift institution's total assets (28% in the case of a mutual savings bank) are invested in nonqualifying assets (principally cash, government obligations, real property loans, and student loans), the applicable percentage is reduced and if less than 60 percent of the assets are invested in qualifying assets the percentage of taxable income method may not be used. In the case of non-qualifying loans, reserve additions are based on the actual loss experience of the institution in a manner consistent with provisions applicable to commercial banks.

Prior to 1969, commercial banks computed reserve additions on the basis of a percentage of outstanding eligible loans or on the basis of the actual loss experience of the individual institution. The Tax Reform Act of 1969 eliminated the percentage of outstanding eligible loan method subject to an 18 year transition period. Under the transition rules, reserve additions

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may not increase the balance of the reserve to an amount in excess of 1.8 percent of eligible loans outstanding in the case of taxable years before 1976; 1.2 percent for taxable years between 1976 and 1982; and 0.6 percent for years before 1988 after which time all commercial banks will be required to compute reserve additions on the basis of actual loss experience. In addition, the reserve addition in any one year may not exceed 0.6 percent of eligible loans outstanding. Under the experience method, reserve additions are computed on the basis of actual loss experience for the current taxable year and the preceeding five taxable years. If the balance of the reserve as of the close of the last taxable year beginning on or before July 11, 1969 exceeded the amount allowable on the basis of the specified percentage of eligible loans or on the basis of the six-year actual loss experience, the bank, nevertheless, is allowed to deduct amounts necessary to maintain the dollar balance of the reserve (assuming the level of outstanding loans does not decrease). This insures that a commercial bank will receive a deduction for the amount of loans which are written off as wholly or partially worthless during the taxable year.

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Report on the Financial Institutions Act of 1973

A Section-by-section Analysis

Treasury Department

October 11, 1973

TABLE OF CONTENTS

Title One - Payment Of Interest On Deposit Accounts

This title adds the Secretary of the Treasury to the present consultative committee which will continue to prescribe rate ceilings only for five years and six months after enactment of this Act. The appropriate supervisory agencies will prescribe ceilings which will, eighteen months after enactment of this Act, begin to eliminate differentials between commercial banks and thrift institutions by four annual increases, not necessarily equal, and not necessarily on the same day each year, in rates of interest which commercial banks may pay on deposits.

Interest rate ceilings on negotiable order of withdrawal accounts (N.O.W.) may differ from ceilings on other accounts but may be no greater than the ceilings on passbook accounts at commercial banks. N.O.W. ceilings will be uniform for banks and thrift institutions.

Demand deposit accounts, negotiable order of withdrawal accounts and savings accounts may be offered at all banks and thrift institutions to all customers.

The payment of interest on demand deposits will remain prohibited for all institutions.

In addition, this title adds truth-in-savings provisions which will require disclosure by commercial banks and thrift institutions to all depositors.

Analysis of Sections

Section 101 amends Section 2 of the Banking Act of 1933 in order to add the definitions of "depository institution" and "negotiable order of withdrawal account" to that section. This is necessary in order to define terms used in the Federal Reserve Act and which are applicable to amendments to the Federal Reserve Act.

Section 102(a) amends the first sentence of section 19(i) of the Federal Reserve Act to add a condition to the effect that demand deposits should not be construed to include negotiable order of withdrawal accounts, which banks may offer after the enactment of this Act.

Section 102(b) amends the first sentence of section 19(j) of the Federal Reserve Act to add the Secretary of the Treasury to the present group which the Board of Governors of the Federal Reserve System will consult before prescribing limitations on the rates of interest that may be paid by members on time and savings deposits.

Section 103(a) inserts in section 19(j) of the Federal Reserve Act a mandate to the Board of Governors of the Federal Reserve System to prescribe rate limitations which will, after this statute has been enacted for eighteen months, begin to eliminate differentials within five and one-half years and to consult with the appropriate supervisory agencies and the Secretary of the Treasury and promulgate implementing regulations. The Section would allow interest ceilings with no differential among institutions on negotiable order of withdrawal types of accounts, but the ceilings would not exceed the maximum ceiling on passbook accounts at commercial banks. There is presently no comparable provision in the law.

Section 103(b) adds a clause to Section 19(j) of the Federal Reserve Act which states that the authority of the Board of Governors of the Federal Reserve System to limit rates of interest or dividends and to promulgate implementing regulations shall expire five years and six months after the enactment of the Financial Institutions Act of 1973. This coincides with the expiration of all authority of all the supervisory agencies of financial institutions to regulate ceilings on rates of interest or dividends. Presently existing authority expires on December 31, 1974.

Section 104(a) amends Section 3 of the Federal Deposit Insurance Act in order to add the definitions of "depository institution" and "negotiable order of withdrawal account" to that section. This is necessary in order to define terms used in the Federal Deposit Insurance Act and applicable to amendments to the Federal Deposit Insurance Act.

Section 104(b) amends the first and second sentences of Section 18(g) of the Federal Deposit Insurance Act. This section adds a condition to the effect that the definition of "demand deposits" shall not include negotiable order of withdrawal accounts.

In addition, this section adds the Secretary of the Treasury to the present group which the Board of Directors of the Federal Deposit Insurance Corporation will consult before prescribing limitations on the rates of interest or dividends that may be paid by insured nonmember banks on time and savings deposits.

Section 104(c) inserts in Section 18(g) of the Federal Deposit Insurance Act a mandate to the Board of Directors of the Federal Deposit Insurance Corporation to prescribe rate limitations which will, after this statute has been enacted for eighteen months, begin to eliminate differentials within five and one-half years and to consult with the appropriate supervisory agencies and the Secretary of the Treasury and to promulgate implementing regulations. The section would allow interest ceilings with no differential among institutions on negotiable order of withdrawal types of accounts, but the ceilings would not exceed the maximum ceiling on passbook accounts at commercial banks. There is presently no comparable provision in the law.

Section 104(d) adds a clause to Section 18(g) of the Federal Deposit Insurance Act which states that the authority of the Board of Directors of the Federal Deposit Insurance Corporation to limit rates of interest or dividends and to promulgate implementing regulations shall expire five years and six months after the enactment of the Financial Institutions Act of 1973. This coincides with the expiration of all authority of all the supervisory agencies of financial institutions to regulate ceilings on rates of interest or dividends. Presently existing authority expires on December 31, 1974.

Section 105(a) amends Section 2 of the Federal Home Loan Bank Act in order to add the definitions of "depository institution" and "negotiable order of withdrawal account" to that section. This is necessary in order to define terms used in the Federal Home Loan Bank Act and applicable to amendments to the Federal Home Loan Bank Act.

Section 105(b) adds a provision to section 5B(a) of the Federal Home Loan Bank Act which authorizes the Board to define "demand deposits" with the condition that the definition shall not include N.O.W. accounts and prohibits the payment of interest on such accounts. Exceptions to the prohibition are to be consistent with section 19 of the Federal Reserve Act or regulations of the Federal Reserve Board. There is presently no comparable provision in the law.

Section 105(c) amends the first sentence of section 5B(a) of the Federal Home Loan Bank Act. This section adds the Secretary of the Treasury to the present group which the Federal Home Loan Bank Board will consult before prescribing limitations on the rates of interest or dividends that may be paid by members, except those insured by the Federal Deposit Insurance Act, by insured institutions under the National Housing Act; and by nonmember building and loan, savings and loan, and homestead associations and cooperative banks on deposits, shares, or withdrawable accounts.

Section 105(d) inserts in Section 5B(a) of the Federal Home Loan Bank Act a mandate to the Federal Home Loan Bank Board to prescribe rate limitations which will, after this statute has been enacted for eighteen months, begin to eliminate differentials within five and one-half years and to consult with the appropriate supervisory agencies and the Secretary of the Treasury and promulgate implementing regulations. The section would allow interest ceilings with no differential among institutions on negotiable order of withdrawal types of accounts, not to exceed the maximum ceiling on passbook accounts at commercial banks. There is presently no comparable provision in the law.

Section 105(e) amends the fourth sentence of Section 5B(a) of the Federal Home Loan Bank Act to state that the authority of the Federal Home Loan Bank Board to limit rates of interest or dividends, and to promulgate implementing regulations, shall expire five years and six months after the enactment of the Financial Institutions Act of 1973. This coincides with the expiration of all authority of all the supervisory agencies of financial institutions to regulate ceilings on rates of interest or dividends. Presently existing authority expires on December 31, 1974.

Section 106(a)(1) is a new subsection which requires commercial banks and thrift institutions subject to this Act to give to all savers full disclosure of rates, terms and restrictions relating to all interest-bearing deposit accounts offered by the institution at the time an account is opened.

Section 106(a)(2) is a new subsection which requires such institutions to disclose the amount of earnings paid, the annual percentage rate and charges against the account, as well as other factors which reduced earnings for the time period reported on annually, or when earnings reports are made on interest-bearing deposits.

Section 106(a)(3) is a new subsection which defines annual percentage rate and annual percentage yield for the purposes of this section.

Section 106(b) is a new subsection which requires notice to depositors 10 days prior to a change in any of the items required to be disclosed by this section.

Section 106(c) is a new subsection relating to advertisement of annual percentage rate and annual percentage yield, and specifically provides that annual percentage yield must be calculated the same way interest is credited to an account for one year. All time and amount requirements must also be prominent in advertisement of rates or yields. In addition, it requires that the annual percentage rate must always be in print as large as, or larger than, annual percentage yield in order to avoid misrepresentation arising from the yield concept. This section prohibits advertisements, announcements or solicitations which indicate rates or yields for more than one year, rely on grace periods or use the term "profit".

Section 106(d) is a new subsection which exempts from this section transactions in which a deposit secures or guarantees a contract, amounts left on deposit under insurance contracts and obligations issued by Federal, state, or local governments; and provides that the Board of Governors of the Federal Reserve System shall prescribe rules and regulations for disclosure by the Federal Government.

Section 106(e) is a new subsection which provides that rules and regulations will be promulgated by the Board of Governors of the Federal Reserve System, then after consulting with the Comptroller of the Currency, the Board of Directors of the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board. Compliance with the provisions of this section will be enforced by the appropriate supervisory agencies.

Section 106(f) is a new subsection which provides for civil penalties for violation of this section of double the interest on the transaction with a minimum of $100 and a maximum of $1,000, court costs and reasonable attorneys' fees.

This subsection provides for no liability when an error in good faith is made and appropriate adjustments are made. Actions may be brought in United States District Courts or other courts of competent jurisdiction for one year after the violation.

Title Two - Expanded Deposit Liability Powers and Reserves

This title provides federal thrift associations with third party payment authority, including negotiable order of withdrawal accounts (N.O.W.), with access to the check clearing process, and with authority to engage in credit card operations. These new powers of thrift associations would be similar to powers of commercial banks.

Banks will be empowered to offer savings accounts and N.O.W. accounts to all customers, individual and corporate. Commercial banks may presently offer savings accounts only to individuals.

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 Federal ReserveBoard after consultation with the Federal Home Loan Bank Board. State chartered savings and loan associations insured by the Federal Savings and Loan Insurance Corporation 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.

Analysis of Sections

Section 201(a) amends Section 19(i) of the Federal Reserve Act to affirm that interest may be paid on deposits of corporations operated for profit, both on savings and N.O.W. accounts. This is needed to insure that corporations for profit may have savings accounts in Federal

Reserve member banks, and to equalize the authority for all financial institutions to provide a wide range of services to their customers. There is presently no comparable provision in the law relating to savings deposits of corporations.

Section 201(b) amends Section 19(b) of the Federal Reserve Act to give the Federal Reserve Board additional authority to set reserves on demand deposit and N.O.W. accounts for members of the Federal Home Loan Bank System as well as members of the Federal Reserve System, after consultation with the Federal Home Loan Bank Board, and provides that the minimum reserves be set: 1) within a range of 1 per centum to 22 per centum on demand deposits and N.O.W. deposits and permits a different level for each; and 2) within a range of 1 per centum to 5 per centum for savings deposits and 1 per centum to 10 per centum on time deposits, for member banks only.

This is a change from the Federal Reserve Board's authority in the present law to set minimum reserves for member banks: 1) within a range of 10 per centum to 22 per centum for demand deposits; 2) within a range of 7 per centum to 14 per centum for demand deposits for member banks not in a reserve city; and 3) within a range of 3 per centum to 10 per centum for deposits other than demand deposits.

Both the Federal Reserve Board and the Federal Home Loan Bank Board will continue to set reserves for their members on time and savings deposits.

Section 201(c) amends Section 19(c) of the Federal Reserve Act to enlarge the authority of the Federal Reserve Board to give it complete authority to determine the form in which reserves may be held. In the present law the form of reserves is determined by statute and must be in the form of balances in a Federal Reserve Bank of which it is a member, and in currency and coin held by such bank. This change is needed to give the Federal Reserve Board authority to allow reserves to be held in other forms if and when they determine that other forms would be appropriate.

Section 202(a) amends Section 2 of the Home Owners' Loan Act of 1933 in order to add the definition of "negotiable order of withdrawal account" to that section. This is necessary in order to define the term used in the Home Owners' Loan Act of 1933 and applicable to amendments to the Home Owners' Loan Act of 1933.

Section 202(b) amends Section 5 of the Home Owners' Loan Act of 1933 in order to delete the term "savings account" from the Act since the term does not reflect the broadened liability power granted by Section 202(b) of this title.

Section 202(c) amends the first paragraph of subsection (b) of section 5 of the Home Owners' Loan Act of 1933. The first sentence of section 5(b)(1) now provides: "An association may raise capital in the form of such <u>savings</u> deposits, shares, or <u>other</u> accounts, for fixed, minimum or indefinite periods of time (all of which are referred to in this section as savings accounts and all of which shall have the same priority upon liquidation) as are authorized by its charter or by regulations of the [Federal Home Loan Bank] Board, and may issue such passbooks, time certificates of deposit, or other evidence of savings accounts as are so authorized." Checking accounts, and accounts subject to negotiable order of withdrawal (N.O.W. accounts) are specifically prohibited by the last sentence of section 5(b)(1) which provides: "Savings accounts shall not be subject to check or to withdrawal or transfer on negotiable or transferable order or authorization to the association, but the Board may by regulations provide for withdrawal or transfer of savings accounts upon nontransferable order or authorization." Subsection (b) amends this sentence so that it becomes a specific authorization for such accounts. Language restricting demand accounts and other surplus language is removed from the paragraph. Under the amendment, in accordance with Board regulations and charter provisions, associations will be authorized to offer checking accounts, N.O.W. accounts, and other accounts subject to withdrawal or transferable order or authorization.

Section 202(d) authorizes federal thrift institutions to extend credit and offer credit card services. Associations may offer their own credit cards or participate in a credit card enterprise with other institutions.

There is presently no comparable provision in the law.

Section 202(e) amends the provision of the Home Owners' Loan Act of 1933 commonly known as the service corporation provision to facilitate credit card participation with thrift institutions in other states. Under that provision, a federal association may invest (up to a 1%-of-assets limitation) in capital stock, obligations, or other securities of corporations organized under the laws of the state or jurisdiction in which its home office is located, if, but only if, the capital stock of the corporation is available for purchase only by savings and loan associations of that State or jurisdiction and by federal associations having their home offices therein. The amendment would permit a group of thrift institutions from different states to establish a credit card operation through a service corporation in which all of them could invest. The reference to institutions eligible for insurance of accounts by the Federal Savings and Loan Insurance Corporation is merely a shorthand reference to both federal and state chartered thrift institutions. No change is needed for this purpose in the law governing savings and loan holding companies since credit card activities could be authorized as "a proper incident to the operations of insured institutions" as provided in section 408(c)(2) of the National Housing Act.

Section 202(f) adds three new sentences to section 11 of the Federal Home Loan Bank Act. The first sentence is patterned after section 16 of the Federal Reserve Act which authorizes the Board of Governors and the Federal Reserve Banks to serve as check clearing houses. Pursuant to this authority, the Board of Governors has promulgated Regulation J describing the liabilities and responsibilities of the parties in the clearing process. The new sentence will give similar authority to the Federal Home Loan Bank Board and the Federal Home Loan Banks.

Section 13 of the Federal Reserve Act provides for access to the Federal Reserve check clearing system by banks which are not Federal

Reserve Bank members. The second sentence added to section 11 of the Federal Home Loan Bank Act by subsection (f) similarly provides for access by institutions which are not Federal Home Loan Bank members. The last sentence assures thrift institutions access to private organizations providing clearing house services.

The amendments made by subsections (d), (e), and (f) are essential to optimum implementation of the third party payment account authority of thrift institutions. The Federal Home Loan Banks, acting as clearing houses, and their members offering third party payment services will enable thrift institutions to offer full services.

Sections 202(g) and 202(h) amend sections 13 and 16 of the Federal Reserve Act to provide that the Federal Home Loan Banks and their members shall have access to the Federal Reserve clearing system.

Section 202(i) amends Section 5A of the Federal Home Loan Bank Act by adding a new subsection which is similar to section 19 of the Federal Reserve Act. Reserve ratios will be established by the Federal Reserve Board after consultation with the Federal Home Loan Bank Board which shall implement and enforce the Federal Reserve determination. Section 201 of this title provides for determination and decisions as to amounts of reserves by the Federal Reserve Board for demand deposit and N.O.W. accounts for Federal Home Loan Bank members, as well as Federal Reserve members. However, the supervision of such reserve requirements and implementation in Federal Home Loan Bank institutions will be by the Federal Home Loan Bank Board. Within a one to 22 per centum range, the Board of Governors may provide for different ratios for different types of third party payment accounts or N.O.W. accounts. The last sentence provides that cash held by a member to satisfy reserve requirements may also be used to satisfy liquidity requirements.

Section 203 repeals Section 2(a) of Public Law 93-100 in order to permit negotiable order of withdrawal accounts in all depository institutions in all states.

Title Three -- Lending and Investment Powers

This title would permit increased income and liquidity for thrift institutions through portfolio diversification and the acquisition of shorter term assets. Liberalization of restrictions would be made in the areas of consumer loans, real estate loans, construction loans, community welfare and development investments, and commercial paper and corporate debt securities investments.

National banks would have liberalized powers with respect to real estate loans and a leeway authority for community welfare and development investments.

In addition, the Federal Reserve Board would be granted more flexible authority to define assets eligible for discount, and the Federal Home Loan Bank Board would have expanded authority to define the types of assets eligible as collateral for Federal Home Loan Bank advances to thrift institutions.

Analysis of Sections

Section 301 (a) amends the Home Owners' Loan Act of 1933, which presently restricts, to a great extent, loans and investments of federal savings and loan associations to residential real estate financing, although they are also presently given some other lending investment authority, such as authority to make loans on the security of their savings accounts, invest not over five percent of their assets in educational loans and invest in certain government and agency obligations. The amendment would permit consumer loans up to ten percent of total assets; real estate loans to the same extent as those permitted to national banks; unsecured lines of credit available to builders for construction financing; community welfare and development investments up to three percent of total assets on the condition that the project be of a civic, community or public nature and not exclusively private and entrepreneurial; high grade commercial paper and corporate debt security investments up to ten percent of total assets (increasing from two percent at a rate of two percent per year); and authority to utilize unused commercial paper and corporate debt authorization, and community welfare and development authorization for consumer loans.

Section 301(b) would broaden the authority of federal thrift institutions to acquire federal, state and municipal securities by removing the requirement that eligible obligations of federal agencies must be "fully guaranteed" as well as eliminating the limitation that eligible state and local obligations must be "general obligations." Subsection (b) also broadens the present authorization to deposit funds in Federal Deposit Insurance Corporation insured banks to include authorization of deposits in Federal Savings and Loan Insurance Corporation insured institutions.

Section 301 (c) is related to subsection (b) and provides that Federal Home Loan Bank members may satisfy their liquidity requirements, to the extent permitted by the Federal Home Loan Bank Board, by maintaining time or savings deposits in institutions insured by the Federal Savings and Loan Insurance Corporation.

Section 301 (d) clarifies the authority of the Federal Savings and Loan Insurance Corporation to authorize a savings and loan holding company to deposit funds in an institution insured by the Federal Savings and Loan Insurance Corporation.

Section 301 (e) broadens the authority of the Federal Home Loan Bank Board to define the types of assets eligible as collateral for Federal Home Loan Bank advances to thrift institutions.

Section 302 (a) permits national banks to make real estate loans on the same basis as other loans. It also makes explicit the powers of a national bank implied in the "incidental powers" provision to make loans on the basis of general credit-worthiness. The reference in the present statute to obtaining, issuing and circulating notes is removed as it is obsolete. Finally, the amendment makes explicit the authority of national banks to issue capital debentures subject to rules and regulations promulgated by the Comptroller of the Currency. Subsection (b) repeals Section 24 of the Federal Reserve Act imposing certain limitations on real estate loans permitted to national banks.

Section 302 (c) permits national banks to invest in loans for, or in equity or debt securities for, or in real estate for community welfare and development up to three percent of total assets. This section permits the same kind of community investments for national banks as are provided for federal thrift institutions under section 301 (a).

Section 303 grants the Federal Reserve Board more flexibility in defining assets eligible for collateral for advances by Federal Reserve Banks by limiting the present requirement that, for the purposes of making advances, notes of member banks must bear interest at a rate not less than one-half of one percent per annum higher than the highest discount rate in effect at the member bank on the date of the note.

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Title Four -- Charter and Thrift Institutions

This title strengthens the dual banking system by authorizing stock thrift institutions at the federal level, just as stock institutions are now permitted at the state level. The Federal Home Loan Bank Board will be empowered to charter stock thrift institutions, which will have powers identical to those possessed by mutual savings and loan institutions. These thrift institutions will be called either Federal Savings and Loan Associations or Federal Savings Banks.

Federally chartered and state chartered mutual institutions may convert to federal stock institutions and federally chartered mutual institutions may convert to state stock institutions, subject to approval of the Federal Home Loan Bank Board pursuant to its regulations. State institutions which convert to federal institutions may retain their life insurance, equity investments and corporate bond investments.

Analysis of Sections

Section 401 (a) amends the definition of the term "association" as used in the Home Owners' Loan Act of 1933, so that it includes any association chartered by the Federal Home Loan Bank Board under Section 5 of the Act regardless of the name given to a particular association. The amendment also adds a definition of terms such as "institution" and "savings and loan association" organized under state laws which terms are used in various parts of the Act being defined. Subsection (a) also adds the terms "Federal mutual association" "Federal Stock Association" "State mutual association" and "State stock institution" which are used in Section 5 (i) of the Act as amended by subsection (f) of this section. Section 5 (i) relates to conversions from mutual to stock organizations, or vice versa, from federal to state or state to federal charter.

Section 401 (b) amends section 5 (a) of the Home Owners' Loan Act which provides the Board's basic authority to charter and regulate federal thrift institutions. In recognition of the broadened consumer lending authority of such associations provided by other provisions of this Act, the introductory clause is amended to state that a purpose of the associations, in addition to thrift or home financing, is to provide for the financing of other goods and services. The term "mutual thrift institutions" in the same clause is deleted since the Board is empowered by this section to charter both stock and mutual institutions. A new sentence is added to provide that savings banks which convert to a federal thrift association charter may retain certain assets and services.

Section 401 (c) replaces existing section 402 (a) of the National Housing Act. In accordance with the President's proposals, the Federal Savings and Loan Insurance Corporation will be called the Federal Savings Insurance Corporation and certain obsolete references in the present law to a Board of Trustees and to five members of the Federal Home Loan Bank Board are changed to conform to the present composition of the Board. In addition, the statement of the Corporation's regulatory authority is clarified by using the terms found in Section 408(h) (1) of the National Housing Act.

Section 401 (d) amends section 403 (a) of the National Housing Act, which identifies those institutions the accounts of which the Corporation must and may insure. "Federal savings associations" and "Federal savings banks" are added to those institutions the accounts of which the Corporation must insure.

Section 401 (e) changes the provisions of Section 5 (b) (2) of the Home Owners' Loan Act prohibiting federal thrift institutions to issue capital stock by specifically providing that they may issue capital stock.

Section 401 (f) amends section 5 (i) of the Home Owners' Loan Act dealing with conversions. Paragraph (1) is essentially the same as the existing first paragraph authorizing state mutual to federal mutual and state stock to federal stock conversions. It would authorize a mutual credit union desiring to expand its powers to convert to a federal mutual association. Paragraph (2) similarly would govern conversions involving no change in capital structure, i.e., federal mutual to state mutual, and federal stock to state stock conversions. Paragraph (2) sets forth specific requirements to be made for such conversions to take place with minimal Board supervision, thus retaining the basic features of the existing "automatic procedure." A proviso relating to the Federal Savings and Loan Insurance Corporation appearing in the existing second paragraph is made unnecessary by amendments to the National Housing Act made in this section. In addition, certain obsolete provisions are deleted. Paragraph (3) authorizes the same types of conversion upon equitable bases and subject to the approval of the Board.

Paragraph (4) governs conversions involving a federal association and a change in capital structure, i.e. federal mutual to federal stock, federal mutual to state stock and state mutual to federal stock conversions. A conversion plan under this paragraph must be approved by the Board by regulations or other forms.

Subparagraph (B) deals with disclosure, proxy statements and offering circulars to prevent manipulative and fraudulent practices in connection with conversions.

Section 401 (f) (5) governs all other conversions involving state associations, namely federal stock to state or federal mutual, and state stock to state or federal mutual. Each of the reorganizations involves the possible, but unlikely, conversion from the stock to mutual form.

Section 401 (f) (6) relates to judicial review of final Board action on a conversion and is based on existing law for a judicial review of the Board's actions under the Supervisory Act and the Savings and Loan Holding Company Act, especially section 5 (d) (7) (B) of the Home Owners' Loan Act and section 407 (j) (2) and 408 (k) of the National Housing Act.

Section 401 (g) amends section 403 (b) of the National Housing Act to provide that the Federal Savings and Loan Insurance Corporation may count capital stock as reserves. The second paragraph of the subsection (g) adds a new subsection (e) to section 403 of the National Housing Act. The new subsection governs state mutuals to state stock conversions.

This provision is meant to provide the same procedures for these conversions as is found in section 401 (f) (4) (A) of this title.

The provisions for judicial review of the final action of the Corporation on these conversions are the same as those provided in Section 401 (f) (6) (A) and (B) of this title.

Section 402 (a) amends section 12 (i) of the Securities Exchange Act of 1934 to vest in the Federal Home Loan Bank Board the authority over thrift institution securities that the Comptroller of the Currency, the Federal Reserve Board and the Federal Deposit Insurance Corporation have over bank securities under that subsection. At the time this authority was placed in the federal bank regulatory agencies, very few savings and loan associations, and no federally chartered associations, were covered by the Exchange Act. However, the number undoubtedly will increase as a result of the preceding section authorizing the Board to issue stock federal charters to thrift institutions. This amendment to the Exchange Act is necessary to assure that the Board has adequate authority to regulate the stock issuance of stock thrift institutions and will be especially useful in the Board's regulation of conversions of existing institutions.

Section 402 (b) makes an amendment related to section 402 (a) to clarify the authority of the Board through the Federal Savings and Loan Insurance Corporation, to regulate the solicitation of proxies and to assure full disclosure to savers by mutual thrift institutions.

Title V -- Credit Unions

This title modernizes the federal law dealing with credit unions. In addition to technical amendments, the title liberalizes certain credit union powers and facilitates credit union operations in different economic periods, e.g., by permitting, with the approval of the Administrator of the National Credit Union Administration, loan rates to be more than the present statutory 1 percent per month.

To deal with periods of severe credit restraint or emergency events, such as a plant closing, a Central Discount Fund is established for federally- or state-insured credit unions. The Fund is created solely to provide funds to meet emergency and temporary liquidity problems. The Fund will be administered by the Administrator of the National Credit Union Administration.

Analysis of Sections

Section 501 is a technical amendment to correct a previous error in codification. It makes no substantive change in the law.

Section 502, which defines terms for "member accounts" and "accounts", deletes the term "share deposit account" because it is not applicable to credit unions. The term "deposit account" is retained as there are some federally insured state credit unions which are authorized by state law to receive members' savings as deposits. The term "deposit account" is qualified, however, specifically to exclude demand deposits or any other type of checking account.

Section 503 modernizes the Federal Credit Union Act by permitting in subsection (1) more flexible procedures in the organization process and by permitting in subsection (2) shares to be denominated in \$5 multiples rather than simply in par value of \$5 each, as is the present law.

Section 504 amends Section 107 of the Federal Credit Union Act in the following ways:

Subparagraph (1) permits credit unions to make loans with maturities of no longer than 7 years in the case of unsecured loans and 12 years in the case of secured loans. Term limitations in the present law are five years in the case of unsecured loans and ten years in the case of secured loans.

Subparagraph (2) removes the archaic reference in the present law to loans being made for "provident or productive purposes" and substitutes "at a fair and reasonable rate of interest".

Subparagraph (3) permits the Administrator to approve loans made at a rate of interest exceeding one per cent per month to provide for periods of high interest.

Subparagraph (4) changes the present law which does not permit lines of credit of varying terms to be set up by a credit union, and permits such lines of credit to account for different credit ratings and for the individual circumstances of different members.

Section 505 liberalizes the restrictions on loans to credit union directors and members of supervisory or credit committees by permitting the loan to be secured by collateral not otherwise encumbered or pledged and approved by the credit committee in addition to credit union shares, which are now the only collateral permitted by law on loans to these individuals.

Section 506 would permit federal credit unions to issue to their members and, in the case of federal credit unions serving predominantly low income members, to non-members, share certificates with varying dividend rates and varying maturities subject to regulations promulgated by the Administrator. This provision would permit federal credit unions to issue certificates which would attract their members' long-term savings and increase availability of credit union funds.

Section 507 eliminates the reference to "share deposit accounts" from this section dealing with powers of credit unions to invest their funds as these accounts are not applicable to credit unions. This technical change is similar to the change made in Section 502 of this title.

Section 508 would liberalize the lending powers of credit committees which do not have the authority to offer pre-approved credit programs. This amendment would provide authority for federal credit unions to pre-approve loan extensions within limits prescribed by the credit committee of the individual credit union, subject to regulations of the Administrator. The amendment retains the other restrictions already in Section 114 of the Federal Credit Union Act placing restrictions on individual loans.

Section 509 removes the restriction on the payment of dividends which is now "annually, semiannually or quarterly" and permits payment of dividends "at such intervals as the Board of Directors may authorize." This change conforms to modern corporate practice.

Section 510 would amend the present law concerning involuntary liquidation by enabling the Administrator to receive, examine and pass upon the claims of members on share certificates as well as shares. This is a technical amendment.

Section 511 establishes a National Credit Union Administration Discount Fund. The Fund will be managed by the Administrator of the National Credit Union Administration, who shall, when appropriate, seek the advice, counsel, and guidance of the National Credit Union Administration Board. The purpose of the Fund is to meet emergency and temporary liquidity problems of insured credit unions. Capital for the Fund will be obtained through subscriptions of credit unions which join the Fund voluntarily. The original stock subscription of each credit union shall be an amount equal to at least one-half of one percent of the subscriber's unimpaired capital and surplus, but in no case less than $50.00. One-half of the required subscription must be paid into the Fund, while the other one-half may be retained by the individual credit union, which may invest these funds in authorized investments which can be easily liquidated and which will be subject to call of the Administrator. Credit unions chartered as of the effective date of the Act may apply for membership within six months, while those chartered subsequent to the effective date may apply within twelve months. Thereafter, those credit unions eligible for membership that did not apply within the specified period may join the Fund but would be prohibited from borrowing from the Fund for a period of twelve months. Once membership is obtained, the member may withdraw six months after filing written notice of its intention. There is also a procedure for involuntary removal of members pursuant to an administrative hearing, upon the occurrence of certain events.

Title VI -- Government Insured and Guaranteed Mortgage Loans

This title corrects the situation, which has existed for some time, of restricted funds for housing because of governmental attempts to keep interest costs artificially low. The administrative interest ceilings placed upon Federal Housing Administration -- insured and Veterans Administration -- guaranteed mortgage loans have resulted in the widespread use of "points" and the general unavailability of funds through these mediums. The removal of interest rate ceilings on FHA and VA loans should result in more adequate funds to solve the nation's housing problem.

Analysis of Sections

Section 601 amends the National Housing Act by removing statutory and administrative rate ceilings on all housing and urban development insured mortgages. The interest rates for mortgages and loans insured under the Act would be at the rate agreed upon by the mortgagee and mortgagor, unless the Secretary of the Department of Housing and Urban Development determines that such rate is excessive in view of the current interest rates in the mortgage or loan market in the areas involved. The mortgagee would be permitted to charge the mortgagor a one percent origination fee, but would not be permitted to charge any discount points to either the buyer or seller.

Section 602 would amend chapter 37 of Title 38 of the United States Code by striking out provisions in section 1803 of Title 38 giving the Administrator the authority to set interest ceilings on VA guaranteed or insured loans, but permitting him to disapprove rates that are clearly excessive in view of the current market rates. Discounts or points would be prohibited. Subsection (2) would remove a provision of the present law permitting discounts in connection with refinancing guaranteed loans to veterans. Subsection (3) also eliminates reference to interest ceilings. Subsection (4) deletes references to limits on guaranteed loans but retains the authority of the Administrator to determine interest on loans made directly from federal funds to certain veteran purchasers.

Title VII
UNIFORM TAX TREATMENT OF FINANCIAL INSTITUTIONS

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 objective of Title VII is a uniform tax formula for all financial institutions. A tax neutrality is sought, such 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. Differences in tax treatment and thus, overall tax burden and effective rates of taxation among financial institutions will continue to exist. These differences will result from a combination of three factors: (1) the form of the institution, i.e., mutual bank versus capital stock corporation; (2) federal and state regulations which will grant certain types of institutions the power to make certain investments and engage in certain activities which are denied to other institutions; and (3) the extent of utilization by an individual institution of the powers granted to it.

Under current law a subsidy is provided for the residential mortgage market through special bad debt reserve deductions for thrift institutions. Consistent with the objective of a "uniform tax formula," this subsidy should be eliminated. If the current subsidy for the residential mortgage market and hence for the housing industry is eliminated, an alternative incentive to insure a continued flow of capital from the private sector into the residential mortgage market could be provided for all taxpayers, not just thrift institutions. In addition, such an incentive would provide a mechanism whereby thrift institutions could be compensated for the tax benefit which would be lost via elimination of the current special bad debt reserve provisions.

In providing a "uniform tax formula" for financial institutions the principal area of current law which would be affected is those provisions relating to deductions for additions to a reserve for losses on loans. Currently, thrift institutions under section 593 of the Internal Revenue Code are allowed to compute reserve additions for qualifying real property loans on the basis of a percentage of taxable income. The 1969 Tax Reform Act reduced the applicable percentage over a ten-year period from 60 percent to 40 percent. In addition, deductions are limited by an overall limitation on the size of the reserve (6 percent of outstanding loans). If more than 18 percent of a thrift institution's total assets (28% in the case of a mutual savings bank) are invested in nonqualifying assets (principally cash, government obligations, real property loans, and student loans), the applicable percentage is reduced and if less than 60 percent of the assets are invested in qualifying assets the percentage of taxable income method may not be used. In the case of nonqualifying loans, reserve additions are based on the actual loss experience of the institution in a manner consistent with provisions applicable to commercial banks.

Prior to 1969, commercial banks computed reserve additions on the basis of a percentage of outstanding eligible loans or on the basis of the actual loss experience of the individual institution. The Tax Reform Act of 1969 eliminated the percentage of outstanding eligible loan method subject to an 18 year transition period. Under the transition rules, reserve additions may not increase the balance of the reserve to an amount in excess of 1.8 percent of eligible loans outstanding in the case of taxable years before 1976; 1.2 percent for taxable years between 1976 and 1982; and 0.6 percent for years before 1988 after which time all commercial banks will be required to compute reserve additions on the basis of actual loss experience. In addition, the reserve addition in any one year may not exceed 0.6 percent of eligible loans outstanding. Under the experience method, reserve additions are computed on the basis of actual loss experience for the current taxable year and the preceeding five taxable years. If the balance of the reserve as of the close of the last taxable year beginning on or before July 11, 1969 exceeded the amount allowable on the basis of the specified percentage of eligible loans or on the basis of the six-year actual loss experience, the bank, nevertheless, is allowed to deduct amounts necessary to maintain the dollar balance of the reserve (assuming the level of outstanding loans does not decrease). This insures that a commercial bank will receive a deduction for the amount of loans which are written off as wholly or partially worthless during the taxable year.

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Summary of Sections

"Tax Neutrality" Provisions

With respect to the bad debt reserve deductions of thrift institutions, the percentage of taxable income method for computing reserve additions for qualifying real property loans will be eliminated as of the end of the last taxable year beginning on or before the effective date of this Act. Thereafter, thrift institutions will compute reserve additions under the percentage of eligible loan method /Code section 585(b)(2)/, or under the experience method /Code Section 585(b)(3)/. The balances of the reserve for nonqualifying loans, qualifying real property loans, and the supplemental reserve, as maintained under current Code section 593(c) will be added together and the total will constitute the opening balance of the reserve for losses on loans for purposes of whichever method the thrift institution chooses to compute future reserve additions. The total dollar amount of the three reserve balances will also constitute the balance of the reserve for purposes of the grandfather clause under sections 585(b)(2) or (3) and thrift institutions will be allowed to deduct amounts necessary to maintain this dollar balance, assuming that total outstanding loans do not decrease. The grandfather clauses insure that thrift institutions will be entitled to deduct the dollar amount of specific loans which become worthless during the taxable year even though they may not be entitled to deduct reserve additions based on an increase in the amount of outstanding loans. The grandfather clause will apply to the total amount of loans outstanding as of the effective date, including nonqualifying and qualifying real property loans and henceforth such distinctions would be meaningless. If a thrift institution adopts the

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percentage of eligible loan method, it will be necessary to distinguish between eligible and ineligible loans.

The provisions of existing Code section 595 which preclude a thrift institution from claiming a loss at the time a loan is foreclosed upon have been retained and their applicability expanded to include commercial banks. Thus, all financial institutions will defer the recognition of gain or loss upon foreclosure until the foreclosed property is sold or otherwise disposed of at which time any amount realized will be applied against the outstanding balance of the loan and any remaining loan balance will be treated as a loan loss and charged to the reserve for losses on loans.

The provisions of current law relating to distributions to shareholders by saving and loan associations, /current Code section 593(f)/; to deductions by thrift institutions for the repayment of certain governmental loans, /current Code section 592/; to deductions for dividends paid on deposit, /current Code section 591/; and to the alternate tax for mutual savings banks conducting a life insurance business, /current Code section 594/ have all been retained. The limitation on the dividend received deduction, /current Code section 596/; and the asset portion of the definition of a "domestic building and loan association," /current Code section 7701(a)(19)(C)/, have been eliminated. In addition, conforming amendments have been made to other Code sections to reflect the fact that the special bad debt reserve provisions applicable to thrift institutions have been eliminated.

Mortgage Interest Tax Credit

A new section will be added to the Code to provide a tax credit equal to a percentage of the gross interest income from residential mortgages. In the case of individuals, including partners of partnerships, beneficiaries of estates and trusts, and shareholders of Subchapter S corporations, the credit will be equal to 1.5 percent of the residential mortgage interest income earned during the taxable year. In the case of other taxpayers the credit will be equal to 3.5 percent of the residential mortgage interest income if 70 percent or more of the taxpayer's assets, determined as of the close of the taxable year, are invested in residential mortgages. If less than 70 percent of the taxpayers assets are invested in residential mortgages the credit percentage will be reduced by 1/3 of 1 percentage point for each one percentage point below 70 percent. No credit will be available unless at least 10 percent of the taxpayer's assets are invested in residential mortgages.

For purposes of the credit, qualifying residential mortgages are limited to first liens secured by an interest in residential property including property which will become residential property through application of the proceeds of the loan. Residential property includes single and multi-family dwellings, public or nonprofit housing facilities, and mobile homes not used on a transient basis. To be residential property 80 percent of the planned use of a multi-family structure must be residential. A mortgage which would otherwise qualify for the credit which is acquired and disposed of in a 60-day period crossing the close of a taxable year will be disqualified unless a valid business purpose for the acquisition and disposition can be established.

The credit will apply to mortgages or portions of mortgages owned directly as well as to participation certificates representing an interest in the underlying mortgages. Thus, participation certificates in a pool of mortgages such as those sold by the Federal Home Loan Mortgage Corporation will qualify for the credit. Instruments which constitute a security, the collateral for which are residential mortgages, will not qualify for the credit.

If the amount of the allowable credit exceeds the taxpayer's income tax liability, the unused amount may be carried back 3 years and carried forward 7 years.

Effective Date

The provisions of Title VII will become effective for taxable years beginning after the effective date of this Act.

Revenue Effect

The estimated annual revenue cost of the tax credit, based on estimated 1973 levels of residential mortgage interest income, will be approximately $690 million. This cost will be offset, in part, by the elimination of the current bad debt reserve provisions applicable to thrift institutions. Based on an applicable percentage of taxable income of 43 percent the tax value of the current deduction which will be eliminated is approximately $530 million. Thus, the annual revenue cost of Title VII is approximately $160 million.

ANALYSIS OF SECTIONS

Definition of Bank.--Section 702 of the title would amend section 581 of the Code (relating to the definition of bank) by making the definition applicable for purposes of the entire subtitle, and expanding the definition of a bank to include thrift institutions as well as commercial banks. Thus, a domestic building and loan association, a mutual savings bank not having capital stock represented by shares, and a cooperative bank without capital stock organized and operated for mutual purposes and without profit, will all be defined as a "bank" for purposes of the Internal Revenue Code. The definition of a domestic building and loan association and a cooperative bank will be contained in sections 7701(a)(19) and 7701(a)(32) respectively. As a result, unless specified in a particular provision, all sections of the Code applicable to a "bank" will apply to all financial institutions.

Reserves for Losses on Loans of "Banks."--Section 703 would amend section 585 of the Code (relating to reserves for losses on loans of banks) by eliminating the present exception for thrift institutions. A new paragraph 4 would be added to section 585(b) to provide that any debt becoming worthless or partially worthless would be charged to the reserve for losses on loans. This is intended to remove any doubt that under the reserve method of computing bad debt deductions all loan losses, including losses on "ineligible loans," are to be charged to the reserve for losses on loans.

A new subsection (c) would be added to section 585 to provide special rules with respect to the reserve for losses on loans for thrift institutions which are currently subject to the provisions of section 593. Thus, the percentage of eligible loan method provided under section 585(b)(2) and the experience method provided under section 585(b)(3) would be applicable to all financial institutions. All thrift institutions coming into existence after the effective date of these provisions would be treated in the same manner as a new commercial bank.

Under present section 593(c), thrift institutions establish and maintain a reserve for losses on nonqualifying loans, a reserve for losses on qualifying real property loans, and a supplemental reserve for losses on loans. Nonqualifying loans (as defined in section 593 (e)(2)) that become worthless are charged to the nonqualifying loan reserve, and additions to that reserve are determined under the experience method. Qualifying real property loans that become worthless are charged to the qualifying loan reserve, and additions to that reserve are determined under either the percentage of eligible loans method, the experience method, or the percentage of taxable income method. Any worthless debt may be charged to the supplemental reserve, but no deduction is allowed for any addition to such reserve. The supplemental reserve represents tax deductible amounts accumulated in the reserve for losses on loans prior to 1963 which exceeded the amounts allowable as of December 31, 1962, under the provisions of section 593(b) as amended by the Revenue Act of 1962. These excess amounts were not required to be taken into income and in effect were placed in a suspense account.

The percentage of taxable income method now available to thrift institutions and the maintenance of three separate reserves would be eliminated as of the close of the last taxable year beginning on or before the effective date of this Act. All thrift institutions which were in existence immediately prior to the effective date of Title VII would aggregate the balances in the three reserves as of the close of the last taxable year beginning on or before the effective date of this Act. This aggregate amount would constitute the opening balance of the reserve for losses on loans under section 585(b) for the first taxable beginning after the effective date of this Act, and this aggregate amount would also constitute the balance of the reserve at the end of the base year, if under section 585(b)(2) or (3) the base year is defined as the last taxable year beginning on or before the effective date of this Act. Section 585(b)(2) would be amended to provide such a base year for thrift institutions adopting the percentage of eligible loan method for taxable years before 1976. If a thrift institution were to adopt the experience method under section 585(b)(3) rather than the percentage of eligible loan method, the base year would be the last taxable year beginning on or before the effective date of this Act.

The aggregation of the balances of the three reserves is consistent with the provisions of present section 593(b)(5) which provides that the opening balance of the reserve under section 593(b)(3) (relating to the use of the percentage of eligible loan method for computing additions to the reserve for losses on loans) shall be the aggregate balances of the reserve for losses on nonqualifying loans, qualifying real property loans, and the supplemental reserve. Requiring inclusion of the supplemental reserve increases the reserve balance, thereby requiring a larger increase in the amount of outstanding loans before a thrift institution would be entitled to further reserve addition under either available method. However, since the combined balance, including the supplemental reserve balance, is subject to the grandfather clause, thrift institutions will always be entitled to a deduction equal to the amount of specific loans "charged-off" during a taxable year, assuming there is no decrease in the amount of outstanding loans. In addition, the mortgage interest tax credit which is intended to compensate thrift institutions for the tax benefit of the current bad debt reserve deduction was computed on the assumption that thrift institutions would receive no future deductions for reserve additions, despite the fact that deductions will be available for specific loans which go bad. Thus, the inclusion of the supplemental reserve in the aggregate reserve balance does not in any way penalize thrift institutions.

The dollar amount of the base year reserve balance would be grandfathered so that thrift institutions would be entitled to claim a deduction in the amount of any loan "charge-off" against the reserve during a taxable year. The reserve balance subject to the grandfather clause is proportionately reduced if the amount of outstanding loans at the end of a taxable year falls below the amount of outstanding loans as of the close of the base year. For this purpose, the amount of loans outstanding at the close of the base year, if such year is the last taxable year beginning on or before the effective date of these provisions, would include nonqualifying loans as well as qualifying real property loans. Once these amendments become effective, thrift institutions will no longer be required to distinguish between nonqualifying and qualifying real property loans. If a thrift institution chooses to use the percentage of eligible loan method however, its outstanding loans would have to be segregated between "eligible" and "ineligible" loans.

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Thrift institutions which had elected under section 593(b) to compute reserve additions for qualifying real property loans under the percentage of eligible loan method would continue to use the base year with which they were currently operating. This would permit such institutions to also retain the same measure of reserve deficiency available to them as a deduction under section 585(b)(2)(A). All other thrift institutions which adopt the percentage of eligible loan method in accordance with these provisions would be limited to the years between the first taxable year beginning after the effective date and 1976 with respect to the deductibility of any reserve deficiency (that is the amount, if any, by which 1.8% of eligible loans outstanding as of the close of the base year exceeds the reserve balance as of such date). It is highly unlikely that any thrift institution in existence on the effective date of this title will in fact have a reserve deficiency. If one should exist, however, only one-fifth of the amount would be allowable as a deduction in any one year in accordance with the provisions of section 585(b)(2)(A).

Under the experience method of section 585(b)(3) the base year is the last taxable year before the most recent adoption of the experience method. In the case of a thrift institution which prior to the effective date of this title had elected to compute reserve additions for qualifying real property loans under the experience method, the base year currently applicable to them will continue to apply. In the case of a thrift institution which elects the experience method as of the first taxable year beginning after the effective date of this title, the base year would be the last taxable year beginning on or before such effective date. For this purpose the fact that under section 593(b)(1)(A) additions to the reserve for losses on non-qualifying loans were computed under the experience method shall be disregarded.

Rules of General Application to Banking Institutions.--Section 704 of the title would amend Part I (relating to rules of general application to banking institutions) of Subchapter H of Chapter 1 by adding five new sections, designated as sections 587, 588, 589, 591, and 594.

Proposed section 587 would be substantially similar to present section 595 (relating to foreclosure on property securing loans). In effect, the application of the provisions of present section 595 for nonrecognition of gain or loss as a result of a foreclosure and the characterization of the foreclosed real property as the original indebtedness would be extended to apply to all financial institutions, including commercial banks.

Section 588 would be substantially similar to present section 593(f) and would provide for the treatment of distraibutions to shareholders by a domestic building and loan association. Distributions of property which exceed accumulated earnings and profits are deemed to be made out of the reserve for losses on loans to the extent that such reserve exceeds the maximum amount which could have been accumulated on the basis of the institution's actual loss experience. Any amount so charged to the reserve will be included in the gross income of the distributing institution in the taxable year in which the distribution is made.

Section 589 would be substantially similar to present section 592 (relating to deduction for repayment of certain loans), and would remain limited to thrift institutions. Sections 590 and 591 would be a reiteration of present section 594 (relating to the alternative tax for mutual savings banks conducting a life insiurance business), and section 591 (relating to deduction for dividends paid on deposits). Mutual savings banks will continue to be entitled to deduct all amounts paid to depositor-owners whereas capital stock institutions will only be able to deduct amounts paid as interest to depositors. Dividends to shareholders will continue to have to be made from after tax earnings. This is not inconsistent with the objective of tax neutrality since the difference in tax treatment results from a difference in the form of organization, rather than from a difference in functional type of operation.

Repeal of Part II of Subchapter H--Section 705 would repeal all of Part II (relating to mutual savings banks and other thrift institutions) of Subchapter H of Chapter 1, and would redesignate Part III (relating to bank affiliates) as Part II. Sections 591, 592, 593(f), 594 and 595 will be reinacted in substantially similar form as part of Part I. This will eliminate the present bad debt reserve provisions applicable to thrift institutions, section 593(a) through (e) and the limitation on the dividend received deduction, section 596. In view of the fact that the percentage of taxable income method will be repealed, there is no reason to continue the limitation on the dividend received deduction since the bad debt reserve deducted for thrift institutions will no longer depend upon taxable income. Elimination of the limitation on the dividend received deduction would provide greater benefit for mutual savings banks than for other thrift institutions since a significantly larger percentage of their asets are invested in corporate stock.

Definition of a Domestic Building and Loan Association--Section 706 would amend present section 7701(a)(19) of the Code (relating to the definition of a domestic building and loan association) so that the term "domestic building and loan association" would mean a domestic building and loan association, a domestic savings and loan association, a Federal savings and loan association, and a Federal savings bank which is an insured institution within the meaning of section 401(a) of the National Housing Act (12 U.S.C. sec. 1724(a)), or is subject by law to supervision and examination by State or Federal authority having supervision over such associations, and the business of which consists principally of acquiring the savings of the public and investing in loans. This definition incorporates the provisions of present law except that the asset test portion of the current definition, subparagraph (C) of present section 7701(a)(19) would be eliminated. All institutions which currently come within the definition of a domestic building and loan association would continue to do so and in addition the proposed definition would include a Federal savings bank as proposed under Title IV of this Act.

Section 706 would also amend the definition of a cooperative bank, section 7701(a)(32) to eliminate the asset test portion of the definition.

Mortgage Interest Tax Credit.--Section 707 of the title would renumber section 42 of the Code as section 43, and provide for a new section 42, which would allow a credit against the tax imposed by Chapter 1 of the Code in an amount equal to a percentage of the interest received or accrued by the taxpayer during the taxable year from a qualifying residential mortgage loan.

<u>Amount of the Credit.</u> --In the case of individuals, including partners of partnerships, beneficiaries of estates and trusts, and shareholders of electing small business corporations, the credit will be equal to 1.5 percent of the interest income from qualifying residential mortgage loans. In the case of other taxpayers, the credit will be equal to 3.5 percent of the interest income from qualifying residential mortgage loans. If less than 70 percent of the taxpayer's assets, determined as of the close of the taxable year are invest in qualifying residential mortgages the credit percentage will be reduced 1/3 of 1 percentage point for each one percentage point below 70 percent. No credit will be available unless at least 10 percent of the taxpayer's assets are invested in qualifying residential mortgage loans. The valuation of qualifying residential mortgages, including participation certificates, and the valuation of total assets for purposes of determining the percentage level of investment in residential mortgages will be made in the same manner as the valuation for purposes of the asset test under present sections 593(b)(2)(B) and 7701 (a)(19)(C). In general valuation will be made on the basis of adjusted basis, as determined under section 1011 and the regulations thereunder or by another method which is in accordance with sound accounting principles and which is used to value all assets. As is the case under the asset test of current law, the taxpayer will have the option of determining the percentage level of investment in qualifying residential mortgages on the basis of an average, computed monthly, quarterly, or semiannually. For purposes of determining the applicable credit percentage fractions shall be disregarded. Thus a percentage level of investment of 57.75 percent shall be treated, for purposes of this section as a percentage level investment of 57 percent. Specific rules for determining the applicable percentage will be contained in regulations to be issued by the Secretary of the Treasury or his delegate.

<u>Limitations on Allowable Credit.</u> --There would be two limitations on the amount of credit allowed to a taxpayer. First, the credit could not exceed the tax imposed by Chapter 1 of the Code, reduced by the credits allowable under section 33 (relating to foreign tax credit), section 35 (relating to partially tax-exempt interest), section 37 (relating to retirement income), section 38 (relating to investment in certain depreciable property), section 40 (relating to expenses of work incentive programs), and section 41 (relating to contributions to candidates for public office).

The second limitation is that the credit would be allowed with respect to interest from qualifying residential mortgage loans only if such interest is verified in the manner prescribed by the Secretary of the Treasury or his delegate in appropriate regulations. In general, such regulations would be aimed at preventing a double counting of the interest on a qualifying residential mortgage loan. For example, where there is a participation certificate such as those issued by FHLMC which represent an interest in a pool of residential mortgages the regulations would be designed to preclude both the servicer of the mortgages who collects the interest and the holders of the participation certificates who own the mortgages from claiming a credit with respect to the same interest income. The Internal Revenue Service may wish to require the transferor(s) of interest payments to supply an information statement (for example, Form 1099-INT, or Form 1041-E) to the taxpayer entitled to the credit and to the Service, setting forth the amount of interest qualifying for the credit. In addition, the regulations would set forth requirements with respect to the verification of the amount of residential mortgage interest received and whether the mortgage instrument or participation certificates meet the statutory requirements.

Qualifying Residential Mortgage Loan.--A qualifying residential mortgage loan would be defined as any loan evidenced by an agreement which constitutes a first lien against the real property in the jurisdiction in which such real property is located, but the credit would apply only to residential property located in the United States (including the District of Columbia) or a possession thereof. To qualify for the credit the loan must be is either (1) a loan (including redeemable ground rents, as defined in section 1055) secured by an interest in real property which is (or, from the proceeds of the loan, will become) residential real property, or a loan made for the improvement of residential real property, provided that for this purpose, residential real property shall include single or multifamily dwellings, facilities in residential developments dedicated to public use or property used on a nonprofit basis for residents, and mobile homes not used on a transient basis, or (2) a loan secured by an interest in real property located within an urban renewal area to be developed for predominantly residential use under an urban renewal plan approved by the Secretary of Housing and Urban Development under part A or part B of the title I of the Housing Act of 1949, as amended, or located within any area covered by a program eligible for assistance under section 103 of the Demonstration Cities and Metropolitan Development Act of 1966, as amended, and a loan made for the improvement of any such real property. These are essentially the same types of loans which are qualifying assets for thrift institutions under present Code section 7701(a)(19)(C)(V) and (VI). The principal difference is that for purposes of the credit only first mortgages will qualify. A credit for subordinated mortgages was not required to compensate thrift institutions since they do not make or hold such mortgages. In addition, a credit for subordinated mortgages would increase the revenue cost of the credit without providing significant benefits for the housing industry. Statutory first liens which attach to residential real property by operation of law, such as a mechanics lien or a tax lien would not qualify for the credit.

If a multifamily structure securing a loan would be used in part for nonresidential purposes, the entire loan would be deemed a qualifying residential mortgage loan if the planned residential use exceeds 80 percent of the property's planned use (determined as of the time the loan is made). The 80 percent test is identical to the definition of residential property under section 167(k) for purposes of determining whether a multiuse facility is residential property thereby entitling the owner to use an accelerated method of depreciation. A loan made to finance the acquisition or development of land would be deemed to be a loan secured by an interest in residential real property if, under regulations prescribed by the Secretary of the Treasury or his delegate, there is reasonable assurance that the property will become residential real property within a period of three years from the date of acquisition of such land; but if such land does not become residential real property within the three-year period the credit will be disallowed for the entire period and the taxpayer would be required to file an amended return and readjust the amount of the credit property allowable.

Where a loan is secured by an interest in residential real property plus an interest in other property, such as the case where a loan to finance an apartment house is secured by a lien on the property plus a security interest in the carpeting and appliances, the mortgage will qualify for the credit so long as the loan value of the residential real property equals the amount of the loan. Where, for valid business reasons, a lender wishes additional security or wishes, as in the case of appliances in an apartment house, to preclude holders of other security interests from foreclosing on their interests to his detriment, there is no reason to deny such a lender the benefit of the credit. If the amount of a loan secured by an interest in both residential real property plus other property does not equal the loan value of the residential property it would be necessary to apportion the interest income on the basis of the respective loan values of the residential real property and the other property and only the amount attributable to the residential real property would qualify for the credit. Specific rules in this area would be prescribed in regulations to be issued by the Secretary of the Treasury or his delegate.

Certain types of loans are specifically excluded from the term "qualifying residential mortgage loan." These include (1) any loan evidenced by a security (as defined in section 165(G)(2)(C) of the Code); (2) any loan, whether or not evidenced by a security (as defined in section 165(g)(2)(C)), the primary obligor on which is a government or political subdivision or instrumentality thereof, a bank (as defined in section 581 of the Code), or another member of the same affiliated group; (3) any loan, to the extent secured by a deposit in or share of the taxpayer; or (4) any loan which, within a 60-day period beginning in one taxable year of the creditor and ending in its next taxable year, is made or acquired and then repaid or disposed of, unless the transactions by which such loan was made or acquired and then repaid or disposed of are established to be for bona fide business purposes. The term "affiliated group," as used in (2) above, would have the meaning assigned to such term by section 1504(a) of the Code, except that the phrase "more than 50 percent" would be substituted for the phrase "at least 80 percent" each place it appears in section 1504(a), and all corporations would be treated as includible corporations (without any exclusion under section 1504(b)). The types of loans described in (1), (2) and (3) above are similar to the types of loans excluded from the definition of a "qualifying real property loan" and hence from the special bad debt reserve provisions, under present Code section 593(e). The types of loans described in (4) above are excluded in order to preclude taxpayers from acquiring mortgages at the close of a taxable year in order to qualify for a higher rate of credit and then dispose of such mortgages once the new taxable year has begun. The exclusion does not apply to mortgages acquired and disposed of for valid business purposes but does place the burden of proof on the taxpayer to establish the valid business purposes.

Specifically included within the definition of a qualifying residential mortgage loan would be an instrument which during its term represents an interest in one or more qualifying residential mortgage loans. The payment terms, yields, maturities and other provisions of the eligible instrument may be different from those of the underlying residential mortgages so long as the terms and provisions of such instrument reasonably reflect anticipated principal and interest payments on the underlying mortgages, including consideration for retirements or prepayments of the underlying mortgages.

It is intended that wide latitude be given to the interpretation of this provision so as to include a variety of types of participation certificates within the definition of a qualifying residential mortgage loan. The essential characteristic is that the holder of the participation certificate must

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own an interest under applicable local law in the underlying qualifying residential mortgages themselves. So long as sufficient mortgage characteristics are present and a direct relationship may be established between the participation certificate and the underlying mortgages certain additional items could be part of a participation certificate. For example, it would be possible to pay interest on a delayed basis annually or semi-annually (or to pay such sum pursuant to a guaranty) and to pass through principal annually or less often (or to pay such sums pursuant to a guaranty) to the holder and to guarantee, irrespective of the guarantor, a projected return of principal based on estimated prepayments. It would also be possible to pay some instruments in a group differently than others so long as the total payments in the group were parallel to the underlying instruments during the time they were owned. It would also be possible for an eligible instrument to be retired prior to the contract terms of the underlying mortgages and for the proceeds from prepayments and other sources to be reinvested in residential mortgages during the instrument's term.

Where sufficient mortgage characteristics are not present or the holders of certificates do not own an interest in the underlying mortgages the credit would not apply to the income from such instruments. Similarly, the credit would not apply to securities the collateral for which are residential mortgages. It will be necessary for the Secretary of the Treasury or his deleate to issue appropriate regulations to refine the definition and characteristics of an instrument which would qualify for the credit and a mortgage backed security which would not.

Carryback and Carryforward of Credit.--The carryback and carryover of any unused credit is patterned after section 46(b), relating to the investment credit. Whenever the amount of the credit for any taxable year would exceed the limitation provided for such taxable year (referred to as an "unused credit year"), such excess would be a credit carryback to each of the three taxable years preceding the unused credit year, and a credit carryover to each of the seven taxable years following the unused credit year, and would be added to the amount otherwise allowable as a credit for such years, except that such excess would be a carryback only to a taxable year beginning after the effective date of the Act. The entire amount of the unused credit for an unused credit year would be carried to the earliest of the taxable years to which such credit may be carried, and then to each of the other nine taxable years to the extent that such unused credit may not be taken into account for a prior taxable year.

The amount of the unused credit which could be added for any preceding or succeeding taxable year would be limited to the amount by which the income tax liability of the taxpayer reduced by other allowable credits for such taxable year exceeds the sum of the amount of credit allowable for such taxable year, plus the amounts which, by reason of this provision were added to the amount of credit allowable for such taxable year and attributable to taxable years preceding the unused credit year.

Assume, for example, that in 1985 corporation X had tax liability of $75 (after taking into account other allowable credits) and the allowable mortgage interest tax credit was $100. The excess credit of $25 would be a credit carryback to taxable year 1982. If tax liability for 1982 had been $80 and the mortgage tax credit had been $60, the amount of the excess credit from 1985 which could be applied to 1982 would be $20 /tax liability $80 less credit originally allowable $60/. If tax liability for 1983 had been 90 and the mortgage credit had been $70 the $5 of unused credit from 1985 could be applied against the 1983 tax liability and a total refund for the two years in the amount of $25 could be claimed. If in 1986 corporation X once again had tax liability of $75 and an allowable mortgage interest credit of $100, only $15 of the excess could be carried to taxable year 1983 /tax liability for 1983 $90 less credit allowable for 1983 $70 plus $5 of excess credit from 1985/. The remaining $10 of excess could be carried back to 1984 and to the extent not used up in that year would be a credit carryforward to 1987 and the succeeding six years.

Special Rules

Proposed subsection (f) would provide that in the case of an estate or trust, the interest from qualifying residential mortgage loans for a taxable year would be apportioned between the estate or trust and the beneficiaries on the basis of the income of the estate or trust allowable to each, and any beneficiary to whom interest from qualifying residential mortgage loans has been so apportioned would be treated for purposes of the credit as the taxpayer who received or accrued the interest from qualifying residential mortgage loans.

Proposed subsection (g) would provide that in case of an electing small business corporation (as defined in section 1371 of the Code), the interest from qualifying residential mortgage loans for a taxable year would be apportioned pro rata among the persons who are shareholders of such corporation on the last day of the corporation's taxable year, and any person to whom any interest from qualifying residential mortgage loans has been so apportioned would be treated for purposes of the credit as the taxpayer who received or accrued such interest.

Residential mortgage interest income apportioned to the beneficiary of an estate or trust or the shareholder of an electing small business corporation would retain its character as interest from qualifying residential mortgage loans. Interest income received through these apportionments will be treated as interest received by an individuial and will be subject to the rate of credit applicable to individuals. The same would be true in the case of qualifying residential mortgage interest income of partnerships which is includible in the income of the individual partners.

Disallowance of the Credit

The credit would be disallowed in two cases. The first involves a taxpayer that is formed or availed of primarily for the purpose of obtaining a higher rate of credit. For example, if a financial institution, other corporation or insurance company rearranges its portfolio of residential mortgages so as to concentrate qualifying residential mortgage loans in a subsidiary or affiliated entity, in order to obtain a higher rate of credit credit by creating an entity with a higher percentage level of investment in residential mortgages, the credit would be disallowed. This rule will not be applicable where a taxpayer can establish a bona fide business purpose for his actions. The Secretary of the Treasury or his delegate would be authorized to prescribe such regulations as may be necessary in order to carry out the intent of this rule. The burden of proof of establishing a bona fide business purpose would rest with the taxpayer.

The second situation where the credit allowed by subsection (a) would be denied occurs if the taxpayer issues obligations that are supported by an authority to borrow from the Treasury of the United States and are approved, at issuance, by the Department of the Treasury. Where a taxpayer has such close ties to the Federal Treasury so as to be, in essence, a quasi governmental agency, it was deemed inappropriate to extend the benefit of the credit.

Conforming Clerical Amendments.--Section 708 would amend present Code sections 246 (relating to rules applicable to deductions for dividends received); 46(d)(1) (relating to credit for investments in certain depreciable property); 57(a)(7) (relating to items of tax preference); 166(h) (relating to bad debts; 172(b)(1)(F) (relating to years to which net operating losses may be carried back and carried over); 582(c)(1) (relating to bad debts etc., with respect to securities held by financial institutions); and 1038 (f)(relating to certain reacquisitions of real property) in order to eliminate distinctions which have been drawn between commercial banks and thrift institutions on account of the special bad debt reserve treatment accorded the later under present law.

Amendments would be made to section 381(c) (relating to items taken into account in certain corporate acquisitions); 6096 (relating to designation of income tax payments to Presidential Election Campaign Fund); 6501 (relating to limitation on assessment and collection); 6511(d) (relating to limitations on credit or refund); 6601(c) (relating to income taxes reduced by carryback or adjustment for certain unused deductions); 6611(f) (relating to refund of income tax caused by carryback or adjustment for certain unused deductions); 6411 (relating to quick refunds in respect of tentative carryback adjustments); and 6501(m) (relating to tentative carryback adjustment period) in order to reflect the addition of the tax credit for qualifying residential mortgage loans.

Section 11(e)(1) (relating to exceptions to tax imposed on corporations) and 811(b) (relating to deduction for dividends to policyholders) would be amended to reflect the redesignation of present section 594 (relating to the alternate tax for mutual savings banks conducting a life insurance business) as section 590.

The table of parts of Subchapter H of Chapter 1, the table of sections of Part I of Subchapter H of Chapter 1 and the table of sections of part IV of subchapter A of Chapter 1 would also be amended by section 708 to appropriately reflect the changes made by the title.

Effective date. --Section 709 would provide an effective date for Title VII. All sections would be effective for taxable years beginning after the date of enactment of the Act. The elimination of the special bad debt reserve provisions currently applicable to thrift institutions and the introduction of the mortgage interest tax credit would not become effective until enactment of the "Financial Institutions Act of 1973." Thus, the tax provisions will not go into effect unless the non-tax provisions of this Act are also enacted.

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93D CONGRESS
1st Session   S. ________________

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IN THE SENATE OF THE UNITED STATES

________________, 1973

Mr. ______________ introduced the following bill

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A BILL

To improve the efficiency and flexibility of the financial system of the United States in order to promote sound economic growth, including the provision of adequate funds for housing.

] Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Financial Institutions Act of 1973".

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TITLE I. PAYMENT OF INTEREST ON DEPOSIT ACCOUNTS

SEC. 101. Section 2 of the Banking Act of 1933, as amended (12 U.S.C. 221a), is further amended by adding at the end thereof the following new subsections:

"(c) The term 'depository institution' means:

(1) any insured bank as defined in section 3 of of the Federal Deposit Insurance Act;

(2) any mutual savings bank as defined in section 3 of the Federal Deposit Insurance Act;

(3) any savings bank as defined in section 3 of the Federal Deposit Insurance Act;

(4) any member as defined in section 2 of the Federal Home Loan Bank Act; and

(5) any insured institution as defined in section 401 of the National Housing Act."

"(d) The term 'negotiable order of withdrawal account' means an account on which payment of interest may be made on a deposit with respect to which the depository institution may require the depositor to give notice of an intended withdrawal not less than thirty days before the withdrawal is made, even though in practice such notice is not required and the depositor is allowed to make withdrawals by negotiable or transferable instrument for the purpose of making payments to third persons or otherwise."

SEC. 102. (a) Subsection (i) of section 19 of the Federal Reserve Act, as amended (12 U.S.C. 371a), is amended by amending the first sentence before the first proviso to read as follows:

"(i) No member bank shall, directly or indirectly, by any device whatsoever, pay any interest on any deposit which is payable on demand, and a demand deposit shall not include negotiable order of withdrawal accounts:"

(b) The first sentence of subsection (j) of section 19 of the Federal Reserve Act, as amended (12 U.S.C. 371b), is amended to read as follows:

"(j) The Board may from time to time, after consulting with the Board of Directors of the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board and the Secretary of the Treasury, prescribe rules governing the payment and advertisement of interest on deposits, including limitations on the rates of interest which may be paid my member banks on time and savings deposits."

SEC. 103. (a) Subsection (j) of section 19 of the Federal Reserve Act, as amended (12 U.S.C. 371b), is further amended by inserting after the second sentence the following:

"Eighteen months after the enactment of the Financial Institutions Act of 1973, the Board shall prescribe interest rate limitations on deposits in all member banks which will begin to eliminate all differential rates among all depository institutions. The Board shall increase the rate limitations for commercial banks by four annual increases resulting in no differential interest rates among different depository institutions five years and six months after the date of enactment of this Act. The appropriate supervisory agencies shall consult with each other and the Secretary of the Treasury and promulgate regulations which will be uniform among all depository institutions and which will eliminate rate limitations on time and savings deposits by five years and six months after the date of enactment of this Act. Rate limitations shall be imposed during the five year and six month period on negotiable order of withdrawal accounts, with no differential interest rates on such accounts by all institutions offering such accounts and no higher ceiling than the maximum ceiling on passbook accounts at commercial banks."

(b) Subsection (j) of section 19 of the Federal Reserve Act, as amended (12 U.S.C. 371b), is further amended by adding at the end thereof the following new sentence:

"Authority to limit the rates of interest or dividends shall only be exercised by the Board for five years and six months after the enactment of this Act."

SEC. 104. (a) Section 3 of the Federal Deposit Insurance Act, as amended (12 U.S.C. 1813), is amended by adding at the end thereof the following new subsections:

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"(r) The term 'depository institution' means:

(1) any insured bank as defined in this section;

(2) any mutual savings bank as defined in this section;

(3) any savings bank as defined in this section;

(4) any member as defined in section 2 of the Federal Home Loan Bank Act; and

(5) any insured institution as defined in section 401 of the National Housing Act."

"(s) The term 'negotiable order of withdrawal account' means an account on which payment of interest may be made on a deposit with respect to which the depository institutions may require the depositor to give notice of an intended withdrawal not less than thirty days before the withdrawal is made, even though in practice such notice is not required and the depositor is allowed to make withdrawals by negotiable or transferable instrument for the purpose of making payments to third persons or otherwise."

(b) The first and second sentences of subsection (g) of Section 18 of the Federal Deposit Insurance Act, as amended (12 U.S.C. 1828(g)), are amended to read as follows:

"The Board of Directors shall by regulation prohibit the payment of interest or dividends on demand deposits in insured nonmember banks and for such purpose it may define the term 'demand deposits', except that such definition shall not include negotiable order of withdrawal accounts; but such exceptions from this prohibition shall be made as are now or may hereafter be prescribed with respect to deposits payable on demand in member banks by section 19 of the Federal Reserve Act, as amended, or by regulation of the Board of Governors of the Federal Reserve System. The Board of Directors may from time to time, after consulting with the Board of Governors of the Federal Reserve System, the Federal Home Loan Bank Board and the Secretary of the Treasury, prescribe rules governing the payment and advertisement of interest on deposits, including limitations on the rates of interest or dividends that may be paid by insured nonmember banks (including insured mutual savings banks) on time and savings deposits."

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(c) Subsection(g) of section 18 of the Federal Deposit Insurance Act, as amended (12 U.S.C. 1828(g)), is further amended by inserting after the third sentence the following:

"Eighteen months after the enactment of the Financial Institutions Act of 1973, the Board of Directors shall prescribe interest rate limitations on deposits in all depository institutions covered by this subsection which will begin to eliminate all differential rates among all depository institutions. The Board of Directors shall increase the rate limitations for commercial banks by four annual increases resulting in no differential interest rates among different depository institutions five years and six months after the date of the enactment of this Act. The appropriate supervisory agencies shall consult with each other and the Secretary of the Treasury and promulgate regulations which will be uniform among all depository institutions and which will eliminate rate limitations on time and savings deposits by five years and six months after the date of the enactment of this Act. Rate limitations shall be imposed during the five year and six month period on negotiable order of withdrawal accounts, with no differential interest rates on such accounts by all institutions offering such accounts and no higher ceiling than the maximum ceiling on passbook accounts at commercial banks."

(d) Subsection (g) of section 18 of the Federal Deposit Insurance Act, as amended (12 U.S.C. 1828(g)), is further amended by adding at the end thereof the following new sentence:

"Authority to limit the rates of interest or dividends shall only be exercised by the Board of Directors for five years and six months after the enactment of this Act."

SEC. 105. (a) Section 2 of the Federal Home Loan Bank Act, as amended (12 U.S.C. 1422), is amended by adding at the end thereof the following new paragraphs:

"(10) The term 'depository institution' means:

(1) any insured bank as defined in section 3 of the Federal Deposit Insurance Act;

(2) any mutual savings bank as defined in section 3 of the Federal Deposit Insurance Act;

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(3) any savings bank as defined in section 3 of the Federal Deposit Insurance Act;

(4) any member as defined in this section; and

(5) any insured institution as defined in section 401 of the National Housing Act."

"(11) The term 'negotiable order of withdrawal account' means an account on which payment of interest may be made on a deposit with respect to which the depository institution may require the depositor to give notice of an intended withdrawal not less than thirty days before the withdrawal is made, even though in practice such notice is not required and the depositor is allowed to make withdrawals by negotiable or transferable instrument for the purpose of making payments to third persons or otherwise."

(b) Subsection (a) of section 5B of the Federal Home Loan Bank Act, as amended (12 U.S.C. 1425b(a)), is amended by adding before the first sentence the following new sentence:

"The Board shall by regulation prohibit the payment of interest or dividends on demand deposits by members, and by institutions which are insured institutions as defined in section 401(a) of the National Housing Act, and by nonmember building and loan, savings and loan, and homestead associations, and cooperative banks, and for such purpose it may define the term 'demand deposits', except that such definition shall not include negotiable order of withdrawal accounts; but such exceptions from this prohibition shall be made as are now or may hereafter be prescribed with respect to deposits payable on demand in member banks by section 19 of the Federal Reserve Act, as amended, or by regulation of the Board of Governors of the Federal Reserve System.

(c) The first sentence of subsection (a) of section 5B of the Federal Home Loan Bank Act, as amended (12 U.S.C. 1425b(a)), is amended to read as follows:

"The Board may from time to time, after consulting with The Board of Governors of the Federal Reserve System, the Board of Directors of the Federal Deposit Insurance Corporation and the Secretary of the Treasury, prescribe rules governing the payment and advertisement of interest or dividends on deposits, shares, or withdrawable accounts, including limitations on the rates of interest or dividends on deposits, shares, or withdrawable accounts that may be paid by members, other than those the deposits of which are insured in accordance with the provisions of the Federal Deposit Insurance Act, by institutions which are insured institutions as defined in section 401(a) of the National Housing Act, and by nonmember building and loan, savings and loan, and homestead associations, and cooperative banks."

(d) Subsection (a) of section 5B of the Federal Home Loan Bank Act, as amended (12 U.S.C. 1425b(a)), is further amended by inserting after the second sentence the following:

"Eighteen months after the enactment of the Financial Institutions Act of 1973, the Board shall prescribe interest rate limitations on deposits in all depository institutions covered by this subsection which will begin to eliminate all differential rates among all depository institutions. The appropriate supervisory agencies shall consult with each other and the Secretary of the Treasury and promulgate regulations which will be uniform among all depository institutions and which will eliminate rate limitations on time and savings deposits by five years and six months after the date of the enactment of this Act. Rate limitations shall be imposed during the five year and six month period on negotiable order of withdrawal accounts, with no differential interest rates on such accounts by all institutions offering such accounts and no higher ceiling than the maximum ceiling on passbook accounts at commercial banks."

(3) The fourth sentence of subsection (a) of 5B of the Federal Home Loan Bank Act, as amended (12 U.S.C. 1425b(a)), is amended to read as follows:

"Authority to limit the rates of interest or dividends shall only be exercised by the Board for five years and six months after the enactment of this Act."

SEC. 106 (a) (1) Each depository institution enumerated in subsection(e)(2) of this section (hereinafter referred to as depository institution) which pays interest on deposits shall make available in writing to any individual or corporation at a time such funds are placed in a deposit on which interest is paid in such institution, and at the time funds are initially placed in an interest-bearing deposit in such institution, the following information with respect to all of the types of interest-bearing deposit accounts offered at that time by such institution:

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(A) the annual percentage rate;

(B) the minimum length of time a deposit must remain on deposit so that earnings are payable at that percentage rate;

(C) the number of times each year earnings are compounded;

(D) the dates on which earnings are payable;

(E) any charges initially or periodically made against any deposits;

(F) any terms or conditions which increase or reduce the rate of earnings payable; and

(G) any restrictions and the amount or method of determining the amount of penalties or charges imposed on the use of funds in any deposit.

(2) Each depository institution which pays interest on deposits shall disclose annually and at the time any earnings report is made in person, or by mailing to the depositor's last know address, with respect to interest-bearing deposits:

(A) the amount of earnings paid;

(B) the annual percentage rate;

(C) any charges made against the account during the period covered, for purposes of computing the payment of earnings and making the report; and

(D) any other terms or conditions which increased or reduced the earnings payable.

(3) (A) Annual percentage rate is the periodic percentage rate multiplied by the number of periods in a calendar year of 365 days for all years, including leap year.

(B) Annual percentage yield is the amount of earnings which would accrue in one year to a principal amount of $100 as the result of the successive applications of the periodic percentage rate at the end of each period to the sum of the principal amount plus any earnings theretofore credited and not withdrawn during that year.

(b) Not less than 10 days before a depository institution which pays interest on deposits adopts any change with respect to any item of information required to be disclosed under this section, that institution shall notify each depositor of each such change.

(c)(1) Nothing in this section shall prohibit a depository institution from advertising an annual percentage yield: Provided, That the annual percentage yield is calculated in the same manner in which interest is credited to the account for one year. In any advertisement which includes annual percentage yield, the annual percentage rate shall also be disclosed, and the annual percentage yield shall be stated in print not more prominent than that of the annual percentage rate. If that rate of yield is payable only on a deposit which meets certain minimum time or amount requirements, those requirements shall be clearly and conspicuously stated.

(2) No such advertisements, announcements or solicitations shall:

(A) include any indication of any percentage rate or percentage yield based on a period in excess of one year or on the effect of any grace period; or

(B) make use of the term "profit" in referring to earnings payable on such deposits.

(d) Nothing in this section applies to any transaction involving:

(1) A deposit of funds if the principal purpose of that deposit is to secure or guarantee the performance of a contract or the conditions of a contract for the sale or use of goods, services, or property;

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(2) Interest payable on premiums, accumulated dividends, or amounts left on deposit under an insurance contract; and

(3) Any obligation issued by any Federal, state or local government or any agency, instrumentality, or authority thereof except that the Board of Governors of the Federal Reserve System shall prescribe rules and regulations to require disclosure by any agency, instrumentality, or authority of the Federal Government.

(e) (1) Rules and regulations to carry out the purposes of this section shall be promulgated by the Board of Governors of the Federal Reserve System, after consultation with the Comptroller of the Currency, the Board of Directors of the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board.

(2) Compliance with the requirements imposed by this section shall be enforced:

(A) by the Comptroller of the Currency for national banks, and banks operating under the Code of Law for the District of Columbia;

(B) by the Board of Governors of the Federal Reserve System for member banks other than national banks;

(C) by the Board of Directors of the Federal Deposit Insurance Corporation for banks insured by the Federal Deposit Insurance Corporation other than members of the Federal Reserve System; and

(D) by the Federal Home Loan Bank Board (acting directly or through the Federal Savings Insurance Corporation, redesignated by section 401 (c) of this Act) in the case of any institution subject to any of the provisions of section 5 (d) of the Home Owners' Loan Act of 1933, section 407 of the National Housing Act and sections 6 (i) and 17 of the Federal Home Loan Bank Act.

(f)(1) Except as otherwise provided in this subsection, any depository institution subject to this Act which pays interest on deposits and which fails in connection with any transaction subject to this section to disclose to any depositor any information required under this section to be disclosed to that depositor is liable to that depositor in an amount equal to the sum of:

(A) twice the amount of the interest in connection with the transaction, except that the liabilities under this paragraph shall not be less than $100 nor greater than $1,000; and

(B) in the case of any successful action to enforce the foregoing liability, the costs of the action together with reasonable attorneys' fees as determined by the court.

(2) A depository institution has no liability under this section if within 15 days after discovering an error, or upon receipt of written notice of an error and prior to the bringing of an action under this section, the institution notifies the individual concerned of the error and makes whatever adjustments are appropriate and necessary.

(3) A depository institution may not be held liable in any action brought under this subsection for a violation of this section if the institution shows by preponderance of the evidence that the violation was not intentional and resulted from an error made in good faith notwithstanding the maintenance of procedures reasonably adopted to avoid any such error.

(4) An action under this section may be brought in any United States District Court, or in any other court of competent jurisdiction, within one year from the date of the occurrence of the violation.

TITLE II. EXPANDED DEPOSIT LIABILITY POWERS AND RESERVES

SEC. 201. (a) Subsection (i) of section 19 of the Federal Reserve Act, as amended (12 U.S.C. 371a) is amended by changing the period at the end thereof to a semicolon and adding the following proviso: "Provided further, That nothing herein contained shall be construed as prohibiting

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the payment of interest on funds of a corporation operated for profit and deposited in a savings deposit or negotiable order of withdrawal account."

(b) Subsection (b) of section 19 of the Federal Reserve Act, as amended (12 U.S.C. 461 (b)), is amended to read as follows:

"(b) Every member bank shall maintain reserves against its deposits in such ratios as shall be determined by the affirmative vote of not less than four members of the Board, but in the case of reserves on demand deposits or negotiable order of withdrawal accounts, after consultation by the Board with the Federal Home Loan Bank Board, within the following limitations:

"(1) In the case of any member bank or member of the Federal Home Loan Bank System, the minimum reserve ratio for any demand deposit or negotiable order of withdrawal deposit account shall be not less than 1 per centum and not more than 22 per centum. Reserve ratios for negotiable order of withdrawal deposits may be set at a level different from that applicable to demand deposits.

"(2) In the case of any deposit in a member bank other than a demand deposit, the minimum reserve ratio shall be not less than 1 per centum and not more than 5 per centum for savings deposits and not less than 1 per centum and not more than 10 per centum on time deposits. The Board may, however, prescribe any reserve ratio, not more than 22 per centum, with respect to any indebtedness of a member bank that arises out of a transaction in the ordinary course of its banking business with respect to either funds received or credit extended by such bank to a bank organized under the law of the foreign country or a dependency or insular possession of the United States."

(c) Subsection (c) of section 19 of the Federal Reserve Act, as amended (12 U.S.C. 461(c)), is amended to read as follows:

"(c) Reserves held by any member bank to meet the requirements imposed pursuant to subsection (b) of this section shall be in any form which the Board may, by regulation, prescribe."

SEC. 202. (a) Section 2 of the Home Owners' Loan Act of 1933, as amended (12 U.S.C. 1462), is amended by adding at the end thereof the following new subsection:

"(e) The term negotiable order of withdrawal account means an account on which payment of interest may be made on a deposit with respect to which the depository institution may require the depositor to give notice of an intended withdrawal not less than thirty days before the withdrawal is made, even though in practice such notice is not required and the depositor is allowed to make withdrawals by negotiable or transferable instrument for the purpose of making payments to third persons or otherwise."

(b) Section 5 of the Home Owners' Loan Act of 1933, as amended (12 U.S.C. 1464), is amended by deleting "savings" at each place it appears before "account" or "accounts".

(c) Paragraph (1) of subsection (b) of section 5 of the Home Owners' Loan Act of 1933, as amended (12 U.S.C. 1464 (b)), is amended (1) by deleting the first sentence and substituting the following in lieu thereof: "An association may raise capital in the form of deposits, including demand deposits, shares, or other accounts (all of which are referred to in this section as accounts); (2) by deleting "in the case of savings accounts for fixed or minimum terms of not less than thirty days" in the third sentence; (3) by deleting "The payment" in the fourth sentence and inserting in lieu thereof: "Except as otherwise provided by the Board, the payment"; and (4) by deleting the last sentence thereof and substituting the following: "Any association may permit withdrawal or transfer of accounts on negotiable, transferable or non-transferable check, order or authorization, and may grant overdrafts".

(d) Subsection (b) of section 5 of the Home Owners' Loan Act of 1933, as amended (12 U.S.C. 1464 (b)), is amended by adding a new paragraph (3) to read as follows:

"(3) Without regard to any other provision of this section, any such association is authorized to issue credit cards, extend credit, and otherwise engage in or participate in credit card operations."

(e) Subsection (c) of section 5 of the Home Owners' Loan Act of 1933, as amended (12 U.S.C. 1464 (c)), is amended by striking "the State, District, Commonwealth, territory, or

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possession in which the home office of the association is located, if the entire capital stock of such corporation is available for purchase only by savings and loan associations of that State, District, Commonwealth, territory, or possession and by Federal savings and loan associations having their home offices therein" and substituting therefor: "a State, if the entire capital stock of such corporation is held only by one or more institutions of a type eligible for insurance of accounts by the Federal Savings Insurance Corporation, redesignated by section 401 (c) of this Act".

(f) Subsection (e) of section 11 of the Federal Home Loan Bank Act, as amended (12 U.S.C. 1431 (e)), is amended by adding at the end thereof:

"The Board shall make and promulgate from time to time regulations governing the transfer of funds and charges therefor among the Federal Home Loan Banks and members thereof and may, at its discretion, exercise the functions of a clearing house for such banks or designate any such bank to exercise such function, and may also require any such bank or banks to exercise the function of a clearinghouse for members. The Board may also at its discretion provide that any such bank may or shall, upon such terms and conditions as the Board may prescribe, receive deposits from any non-member institutions. Any private organization or other organization or person providing clearinghouse services to commercial banks shall provide equitable access to Federal Home Loan Banks and members thereof."

(g) The first sentence of section 13 of the Federal Reserve Act, as amended (12 U.S.C. 342), is amended by inserting after "may receive from any non-member bank or trust company", the following: "or, without limitation by or on any other provision of law, but subject to approval by the Board of Governors and the Federal Home Loan Bank Board by regulation or otherwise, from any Federal Home Loan Bank or member thereof".

(h) Section 16 of the Federal Reserve Act, as amended (12 U.S.C. 248 (o)), is amended by changing the period at the end thereof to a colon and by adding the following proviso: "Provided, That whenever any such Federal Reserve Bank exercises any of the functions of a clearinghouse for its member banks, it shall offer the same services on an equitable basis to each Federal Home Loan Bank and members thereof except that, to such extent as the Federal Home Loan Bank Board may provide, items cleared for any such Federal Home Loan Bank member shall be cleared against the reserve account or accounts of such member maintained at its Federal Home Loan Bank."

(i) Section 5A of the Federal Home Loan Bank Act, as amended (12 U.S.C. 1425a), is amended by adding a new subsection thereto as follows:

"(g) Each such institution shall maintain reserves against its demand accounts and negotiable order of withdrawal accounts, in balances in the Federal Home Loan Bank of which it is a member or which is designated by the Board and in currency and coin held by such institution, or such part thereof as the Board may prescribe, or in such other form as the Board of Governors of the Federal Reserve System may provide for similar reserves of member banks, equal to not less than such percentages of its aggregate amounts of such accounts (not less than 1 per centum nor more than 22 per centum) as may be established by the Board based on determinations made by the Board of Governors after consultation with the Board. Such determination and consultation shall take into consideration the various types of accounts of the institutions, the length of time such accounts have been offered by any institution, and such other factors as may be deemed appropriate, and different percentages may be prescribed on the basis of such considerations. The term'cash' as used in subsection (b) shall include any currency, coin, or holdings eligible to be considered as reserves under the first sentence of this subsection. For purposes of subsections (d) and (e) and the first sentence of subsection (c) of this section, the terms 'liquidity requirement' and 'liquidity' shall, except to such extent as the Board may otherwise provide, respectively include the requirements and the holdings referred to in this subsection."

(j) Subsection (b) of section 5A of the Federal Home Loan Bank Act (12 U.S.C. 1425a(b)) is amended by striking "4 per centum" and inserting "1 per centum" in lieu thereof.

SEC. 203. Subsection (a) of section 2 of the Act of August 16, 1973 (Public Law 93-100) is repealed, and subsections (b) and (c) of that Act are redesignated as (a) and (b).

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TITLE III. LENDING AND INVESTMENT POWERS

SEC. 301. (a) Subsection (c) of section 5 of the Home Owners' Loan Act of 1933, as amended (12 U.S.C. 1464(c)), is amended by adding immediately after the last paragraph thereof a new paragraph as follows:

"Without regard to any other provision of this subsection, any such association is authorized, without limitation except as provided in this sentence or by the Board, to invest in, sell, or service the following loans, including obligations and advances of credit, and investments and interests therein: (1) consumer loans, as defined by the Board; (2) loans secured by or made for the alteration, repair or improvement of, real property such as may be made or invested in by a national banking association; (3) loans made to finance construction; (4) equity or debt securities for, or real estate for, or loans made for community welfare and development where the project is of a civic, community or public nature and not exclusively private and entrepreneurial; and (5) commercial paper and corporate debt securities as defined and approved by the Board for such investment: Provided, That no investment shall be made by an association under the first numbered clause of this sentence if the aggregate investment by the association under that clause, determined as prescribed by the Board, exclusive of any investment which is or at the time of its making was otherwise authorized, would thereupon exceed 10 per centum of its assets, except that the aggregate investments referred to in the fourth and fifth numbered clauses of this sentence but not so invested may be so invested under said first clause: And provided further, That no investment shall be made by an association under the fourth numbered clause of this sentence if the aggregate investment by the association under that clause, determined as prescribed by the Board, would thereupon exceed 3 per centum of its total assets: And provided further, That no investment shall be made by an association under the fifth numbered clause of this sentence if the aggregate investment by the association under that clause, determined as prescribed by the Board, exclusive of any investment which is or at the time of its making was otherwise authorized, would thereupon exceed 10 per centum of its assets, except that the Board may approve such investments in the first year after enactment of this sentence only to the extent of 2 per centum of assets, which amount may be increased to 4 per centum in the second year, 6 per centum in the third year, 8 per centum in the fourth year, and 10 per centum in succeeding years after the fourth year following such enactment.

(b) The second proviso of the first sentence of said subsection (c) is amended to read as follows:

"And provided further, That any portion of the assets of such associations may be invested in obligations, participations, or other securities or instruments of, or issued by, or acquired from, or having the benefit of any insurance or guaranty by, any one or more of the following, namely, the United States, a State, a county, municipality, or political subdivision of any State, any district, public instrumentality, or authority of any one or more of the foregoing, or the Government National Mortgage Association, the Federal National Mortgage Association, a Federal Home Loan Bank, or any other agency of the United States, or in the stock of a Federal Home Loan Bank or the Federal National Mortgage Association; or in time deposits, certificates, or accounts of any bank or other financial institution the deposits or accounts of which are insured by the Federal Deposit Insurance Corporation or the Federal Savings Insurance Corporation, redesignated by section 401 (c) of this Act; or in obligations or other instruments or securities of the Student Loan Marketing Association; and as used in this section the term 'State' shall include the District of Columbia, the Commonwealth of Puerto Rico, and the possessions of the United States;"

(c) Subsection (b) of section 5A of the Federal Home Loan Act, as amended (12 U.S.C. 1425a(b)), is amended by inserting before "and commercial banks" the following: ",insured institutions as defined in section 401(a) of the National Housing Act,".

(d) Section 408(e)(1)(A)(iii) of the National Housing Act, as amended (12 U.S.C. 1730a(e)(1)(A)(iii)), is amended by inserted after the words "an insured institution not a subsidiary," the words "other than withdrawable accounts,".

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(e) Section 10 of the Federal Home Loan Bank Act, as amended (12 U.S.C. 1430), is amended (1) by deleting all that follows the word "upon" in the first sentence of subsection (a) and inserting "such security as the Board may prescribe"; and (2) by deleting the first two sentences of subsection (b).

SEC. 302. (a) The first partial sentence of Paragraph Seventh of section 5136 of the Revised Statutes of the United States, as amended (12 U.S.C. 24), is amended to read as follows:

> "Seventh. To exercise by its board of directors or duly authorized officers or agents, subject to law, all such incidental powers as shall be necessary to carry on the business of banking; by discounting and negotiating promissory notes, drafts, bills of exchange and other evidence of debt; by receiving deposits; by buying and selling exchange, coin, or bullion; by granting overdrafts and making loans secured by personal property or real estate or on the basis of general creditworthiness; and by issuing capital debentures subject to rules and regulations promulgated by the Comptroller of the Currency."

(b) Section 24 of the Federal Reserve Act, as amended (12 U.S.C. 371), is repealed.

(c) Paragraph Eighth of section 5136 of the Revised Statutes of the United States, as amended (12 U.S.C. 24), is amended to read as follows:

> "Eighth. To make contributions for charitable, philanthropic, or benevolent purposes conducive to public welfare; and to invest in loans for, or in equity or debt securities for, or in real estate for community welfare and development where the project is of a civic, community or public nature and not exclusively private and entrepreneurial in an amount not to exceed 3 per centum of total assets."

SEC. 303. The last sentence of section 10(b) of the Federal Reserve Act, as amended (12 U.S.C. 347b), is repealed.

TITLE IV. CHARTERS FOR THRIFT INSTITUTIONS

SEC. 401. (a) Subsection (d) of section 2 of the Home Owners' Loan Act of 1933, as amended (12 U.S.C. 1462), is amended to read as follows:

"(d) The terms 'association' or 'Federal association' mean a Federal savings and loan association or a Federal savings bank chartered by the Board under section 5 of this Act, and any reference in any law to a Federal savings and loan association shall be deemed to be also a reference to a Federal savings bank, but except as otherwise expressly provided by Federal statute or by the Board, no reference to a bank or banks in any statute of the United States shall be deemed to be a reference to a Federal savings and loan association or a Federal savings bank. As used in this Act, references to a 'building and loan association', 'savings and loan association', or 'institution' which is chartered or organized under State laws include any institution organized under such laws and of a type which may be eligible for insurance of accounts under Title IV of the National Housing Act, as amended (12 U.S.C. 1724 et seq.); the terms 'Federal mutual association', 'Federal stock association', 'State mutual association', and 'State stock institution' differentiate such associations and institutions on the basis of their capital structure."

(b) Subsection (a) of section 5 of the Home Owners' Loan Act of 1933, as amended (12 U.S.C. 1464(a), is amended to read as follows:

"(a) In order to provide thrift institutions in which people may invest their funds and in order to provide for the financing of homes and other goods and services which people may require, the Board is authorized to provide for the organization, incorporation, conversion, examination, operation and regulation, under such rules, regulations (including definitions of terms used in this Act), or orders as it may prescribe, of associations which may be known as 'Federal Savings and Loan Associations' or 'Federal Savings Banks', and in issuing charters therefor, the Board shall give primary consideration to the best practices of thrift institutions and the needs of the communities to be served. An association which was formerly

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organized as a savings bank under State law may, to the extent authorized by the Board, continue and retain its authority to provide life insurance and its equity and corporate bond investments at levels determined by its average ratio of such investments of total assets for the five year period, January 1, 1968 through December 31, 1972."

(c) Subsection (a) of section 402 of the National Housing Act, as amended (12 U.S.C. 1725 (a)), is amended to read as follows:

"(a) The Federal Savings and Loan Insurance Corporation is redesignated as the Federal Savings Insurance Corporation (hereinafter referred to as the "Corporation") and references in this title and in any other law to the Federal Savings and Loan Insurance Corporation shall be deemed to be references to the Corporation. The Corporation shall insure the accounts of institutions eligible for insurance as hereinafter provided. The Corporation shall be under the direction of the Federal Home Loan Bank Board and is authorized to issue such rules, regulations and orders as it may deem necessary or appropriate to enable it to administer and carry out the purposes of this title and to require compliance therewith and prevent evasions thereof. The principal office of the Corporation shall be in the District of Columbia."

(d) Subsection (a) of section 403 of the National Housing Act, as amended (12 U.S.C. 1726 (a)), is amended by deleting the comma after "Federal savings and loan associations" and by adding thereafter "and Federal Savings Banks.".

(e) Paragraph (2) of subsection (b) of section 5 of the Home Owners' Loan Act of 1933, as amended (12 U.S.C. 1464 (b) (2)), is amended by changing "(except capital stock)" to "(including capital stock)".

(f) Subsection (i) of section 5 of the Home Owners' Loan Act of 1933, as amended (12 U.S.C. 1464 (i)), is amended to read as follows:

"(i) (1) Subject to such rules, regulations, or orders as the Board may prescribe, any State mutual institution and any credit union may convert to a Federal mutual association, and any State stock institution may convert to a Federal stock association, upon a vote of at least a majority of the votes cast at a meeting of its members or shareholders properly called to consider such action. "(2) Any Federal mutual association may convert to a State mutual

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institution, and any Federal stock association may convert to a State stock insitituion, organized under the laws of the State in which its home office is located: Provided, That

"(A) the laws of such State permit a similar institution of the State to convert into a Federal association;

"(B) such conversion into a State institution is approved by a majority of the votes cast at a special meeting called to consider such action and complies with other requirements reciprocally equivalent to the requirements of such State laws for the conversion of a State institution into a Federal association;

"(C) notice of the meeting called for the purpose of voting on such conversion into a State institution shall expressly state that the meeting is called to vote on conversion, shall include a full and accurate description of the plan of conversion (including a discussion of the probable income tax consequences, if any, of the conversion to the account holders or shareholders and the association) and all other matters to be brought before the meeting, shall include a proxy form covering that meeting only, and shall state the time, date, and place of the meeting; the notice shall be mailed, postage prepaid, at least ten days prior to the date of the meeting to each voting member or shareholder of the association at his last address as shown on the books of the association and to the Board; and

"(D) such conversion shall be effective upon the date that all provisions of this Act and regulations thereunder have been fully complied with and a new charter has been issued by such State.

"(3) A Federal mutual association may convert to a State mutual institution and a Federal stock association may convert to a state stock institution upon an equitable basis subject to the approval, by regulations or otherwise, of the Board.

"(4) (A) A Federal mutual association may convert to either a Federal stock association or a State stock institution, and a State mutual institution or any credit union may convert to a Federal stock institution, upon an equitable basis and subject to the approval by regulations or otherwise of the Board.

"(B) In issuing rules, regulations and orders to implement this paragraph, the Board shall take action to assure that accurate and adequate disclosure of the terms and effects of plans of conversion is provided to account holder members and other purchasers of capital stock in converted associations; that adjustments are made in plans of conversion to be effected by way of merger or holding company acquisition necessary or appropriate to accomplish the purpose of this paragraph; that plans of conversion and proxy statements, offering circulars and related instruments and actions implementing such plans are subject to appropriate review and approval; that the capital stock issued as a part of conversion is fairly and independently valued and priced; that such capital stock is llocated distributed fairly and without manipulative or deceptive devices being employed; that appropriate provision is made regarding fractional share interests and minimum capital stock purchase requirements; and that plans of conversion are adopted and implemented in a form and manner such that stability and continuity of management are encouraged and that the stability, safety and soundness of savings and loan associations and other financial institutions are not impaired.

"(5) Any other conversion involving a Federal savings and loan association shall be effected only in accordance with such rules, regulations and orders as the Board may prescribe.

"(6) (A) Prior to final Board action with regard to a plan of conversion under paragraphs (1), (3), (4) and (5) of this subsection, no action of whatever nature respecting such plan of conversion, or any action taken by the Board in connection therewith, may be brought against the Board or any member, officer, employee or agent thereof, or against any Federal Home Loan Bank or any director or officer thereof.

"(B) Any party aggrieved by final action of the Board under this subsection may obtain review thereof by filing in the court of appeals of the United States for the circuit in which the home office of the association seeking to convert is located, or in the United States Court of Appeals for the District of Columbia Circuit, within thirty days after the date of service upon the said association of the document reflecting such action, a written petition praying that the action of the Board be modified, terminated, or set aside. A copy of such petition shall be forthwith transmitted by the clerk of the court to the Board, and thereupon the Board shall file in the court the record in the proceeding, as provided in section 2112 of title 28 of the United States Code. Upon the filing of such petition, such court shall have jurisdiction, which upon the filing of the record shall be exclusive, to affirm, modify, terminate, or set aside, in whole or in part, the action of the Board. Review of such proceedings shall be had as provided in chapter 7 of title 5 of the United States Code. The commencement of proceedings for judicial review under this subparagraph shall not, unless specifically ordered by the court, operate as a stay of the effectiveness of the final section of the Board."

(g) Section 403 of the National Housing Act, as amended (12 U.S.C. 1726), is amended (1) by adding the following sentence at the end of subsection (b) thereof: "As used in this subsection the term 'reserves' shall, to such extent as the Corporation may provide, include capital stock and other items, as defined by the Corportation", and (2) by adding at the end thereof a new subsection (e) to read as follows:

"(e) (1) A state-chartered mutual insured institution may change from that type of insitution to a state-chartered institution having capital stock only by complying with the requirements of State law and the same requirements that are applicable to conversions under section 5 (i) (4) of the Home Owners' Loan Act of 1933, as amended: Provided: That for purposes of this paragraph the references in said section (5) (i) (4) to the Federal Home Loan Bank Board shall be deemed references to the Corporation.

"(2) A state-chartered insured institution having capital stock may change from that form of institution to a state-chartered mutual institution of a type insurable by the Corporation in accordance with State law and such rules, regulations and orders as the Corporation may prescribe.

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"(3) The Corporation is authorized to issue such rules, regulations, and orders, including definitions of terms, as it may deem necessary or appropriate to effectuate the purposes of this subsection and to exercise such remedies as may be available to it or the Federal Home Loan Bank Board under laws as now in effect or as they may be hereafter amended.

"(4) (A) Prior to final corporation action with regard to a plan of conversion under paragraphs (1) or (2) of this subsection, no action respecting any such plan of conversion, or any action taken by the Corporation in connection therewith, may be brought against the Federal Home Loan Bank Board or any member, officer, employee, or agent thereof, or any Federal Home Loan Bank or officer or director thereof.

"(B) Any party aggrieved by final action of the Corporation under this subsection, may obtain a review thereof by filing in the court of appeals of the United States for the circuit in which the principal office of the institution seeking to convert is located, or in the United States Court of Appeals for the District of Columbia Circuit, within thirty days after the date of service upon the said institution of the document reflecting such action, a written petition praying that the action of the Corporation be modified, terminated, or set aside. A copy of such petition shall be forthwith transmitted by the clerk of the court to the Corporation, and thereupon the Corporation shall file in the court the record in the proceeding, as provided in section 2112 of title 28 of the United States Code. Upon the filing of such petition, such court shall have jurisdiction, which upon the filing of the record shall be exclusive, to affirm, modify, terminate, or set aside, in whole or in part, the action of the Corporation. Review of such proceedings shall be had as provided in chapter 7 of title 5 of the United States Code. The commencement of proceedings for judicial review under this subparagraph shall not, unless specifically ordered by the court, operate as a stay of the effectiveness of the final action of the Corporation."

SEC. 402 (a) Section 12 of the Securities Exchange Act of 1934, as amended (15 U.S.C. 78), is amended by substituting the following for subsection (i) thereof:

"(i) In respect of any securities issued by banks the deposits of which are insured in accordance with the Federal Deposit Insurance Act or institution of a type eligible for insurance of accounts by the Federal Savings Insurance Corporation, redesignated by section 401 (c) of the Financial Institutions Act of 1973, the powers, functions, and duties vested in the Commission to administer and enforce sections 12, 13, 14(a), 14(c), 14(d), 14(f) and 16 (1) with respect to national banks and banks operating under the Code of Law for the District of Columbia are vested in the Comptroller of the Currency, (2) with respect to all other member banks of the Federal Reserve System are vested in the Board of Governors of the Federal Reserve System, (3) with respect to all other insured banks are vested in the Federal Deposit Insurance Corporation, and (4) with respect to institutions of a type eligible for insurance of accounts by the redesignated Federal Savings Insurance Corporation are vested in the Federal Home Loan Bank Board. The Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board shall have power to make such rules and regulations as may be necessary for the execution of the functions vested in them as provided in this subsection and none of the rules, regulations, forms or orders issued or adopted by the Commission shall be in any way binding upon such officers and agencies in the performance of such functions, or upon any such banks or institutions in connection with the performance of such functions."

(b) Paragraph (5) of subsection (l) of section 407 of the National Housing Act, as amended (12 U.S.C. 1730 (l) (5)), is amended by inserting after "disclosures" a comma and the following "including proxy statements and the solicitation of proxies thereby,".

TITLE V. CREDIT UNIONS

SEC. 501. Section 101 of the Federal Credit Union Act, as amended (12 U.S.C. 1752), is amended by redesignating the last numbered paragraph *(4) as paragraph (5) and by redesignating paragraphs (5) through (8) as paragraphs (6) through (9), respectively.

SEC. 502. Redesignated paragraph (5) of section 101 of the Federal Credit Union Act, as amended (12 U.S.C. 1752), defining "member accounts" and "account", is amended to read as follows:

"(5) The terms 'member account' and 'account' (when referring to the account of a member of a credit union) mean a share, share certificate, or when referring to the account of a federally insured state credit union, may also mean a deposit account, but not a demand deposit or

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checking account, of a type approved by the Administrator which evidences money or its equivalent received or held by a credit union in the usual course of business and for which it has given or is obligated to give credit to the account of the member, and, in the case of a credit union serving predominantly low-income members (as defined by the Administrator), such terms (when referring to the account of a non-member served by such credit union) mean a share, share certificate, or deposit account, but not a demand deposit or checking account, of such nonmember which is of a type approved by the Administrator and evidences money or its equivalent received or held by such credit union in the usual course of business and for which it has given or is obligated to give credit to the account of such nonmember;"

SEC. 503. Section 103 of the Federal Credit Union Act, as amended (12 U.S.C. 1753), is amended:

(1) by striking out the words "some officer competent to administer oaths" and inserting "a witness either individually or collectively," in lieu thereof; and

(2) by striking out the words "$5 each " at the end of paragraph (4) thereof and inserting in lieu thereof: "in $5 multiples, not less than $5 and not more than $25 each;".

SEC. 504. Paragraph (5) of section 107 of the Federal Credit Union Act, as amended (12 U.S.C. 1757), is amended:

(1) by striking out in the first partial sentence the phrase "to make unsecured loans with maturities not exceeding five years, and secured loans with maturities not exceeding ten years," and substituting in lieu thereof the phrase: "to make unsecured loans with maturities not exceeding seven years, and secured loan with maturities not exceeding twelve years,";

(2) by striking out the words "for provident or productive purposes" and inserting "at a fair and reasonable rate of interest" in lieu thereof;

(3) by adding after the words "unpaid balances" the words "or such higher rates of interest as approved for all Federal credit unions by the Administrator"; and

(4) by deleting the semicolon at the end of paragraph (5), inserting a period in lieu thereof, and adding the following sentence: "A Federal credit union may offer to its members lines of credit which shall be in accordance with the regulations promulgated by the Administrator. The term linesof credit means loans up to a stated maximum amount on certain terms and conditions to a member borrower which may be different from terms and

conditions to another member borrower."

SEC. 505. Paragraph (6) (B) of section 107 of the Federal Credit Union Act, as amended (12 U.S.C. 1757), is amended to read as follows:

> "Upon the making of the loan, if the aggregate amount of loans outstanding under authority of this paragraph is in excess of $5,000, that amount in excess of $5,000 must be secured by shares or all other collateral approved by the credit committee not otherwise encumbered or pledged. The collateral for that amount of the loan under $5,000 shall be the same as that for any other member."

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SEC. 506. Paragraph (7) of section 107 of the Federal Credit Union Act, as amended (12 U.S.C. 1757), is amended to read as follows:

"(7) to receive from its members or other Federally insured credit unions and, in the case of credit unions serving predominantly low income members (as defined by the Administrator) to receive from nonmembers (A) payments on shares; and (B) payments on share certificates which may be issued at varying dividend rates and maturities as prescribed in regulations promulgated by the Administrator."

SEC. 507. Paragraph (8)(H) of section 107 of the Federal Credit Union Act, as amended (12 U.S.C. 1757), is amended to read as follows:

"(H) in shares, share certificates, or deposit accounts, but not demand deposits or checking accounts, of federally insured credit unions."

SEC. 508. Section 114 of the Federal Credit Union Act, as amended (12 U.S.C. 1761c), is amended to read as follows:

"The credit committee shall hold such meetings as the business of the Federal credit union may require and not less frequently than once a month to consider applications for loans and lines of credit offered in accordance with regulations promulgated by the Administrator. Reasonable notice of such meetings shall be given to all members of the committee. No loan or line of credit shall be made unless it is approved by a majority of the entire committee and by all members of the committee who are present at the meeting at which the application is considered; except that the credit committee may appoint one or more loan officers and delegate to him or them the power to approve loans and lines of credit. Each loan officer shall furnish to the credit committee a record of each loan and line of credit approved or not approved by him within seven days of the date of the filing of the application therefor. All loans and lines of credit not approved by a loan officer shall be acted upon by the credit committee. No individual shall have the authority to disburse funds of the Federal credit union for any loan or line of credit which has been approved by him in his capacity as a loan officer. Not more than one member of the credit committee may be appointed as a loan officer. Applications for loans and lines of credit shall be made on forms prepared by such committee, which shall set forth the purpose for which the loan or line of credit is desired, the security, if any, and such other data as may be required. No loan or line of credit which is not adequately secured may be made to any member, if, upon the making of that loan or line of credit, the member would be indebted to the Federal credit union upon loans or lines of credit made to him in an aggregate amount which, in the case of a credit union whose unimpaired capital and surplus is less than $8,000, would exceed $200, or which, in the case of any other credit union, would exceed $2,500 or 2-1/2 per centum of its unimpaired capital and surplus, whichever is less. No loan or line of credit may be made to any member if, upon the making of that loan or line of credit, the member would be indebted to the Federal credit union upon loans or lines of credit made to him in an aggregate amount which would exceed $200 or 10 per centum of the credit union's unimpaired capital and surplus, whichever is greater. For the purposes of this section, an assignment of shares or the endorsement of a note shall be deemed security and, subject to such regulations as the Administrator may prescribe, insurance obtained under Title I of the National Housing Act shall be deemed adequate security."

SEC. 509. Section 117 of the Federal Credit Union Act, as amended (12 U.S.C. 1763), is amended by striking the words "Annually, semi-annually, or quarterly, as the bylaws may provide," and inserting "At such intervals as the board of directors may authorize," in lieu thereof.

SEC. 510. Subsection (b)(3)(B) of section 120 of the Federal Credit Union Act, as amended (12 U.S.C. 1766), is amended by inserting the words "and share certificates" after the word "shares".

SEC. 511. The Federal Credit Union Act, as amended (12 U.S.C. 1751-1790), shall be further amended by inserting immediately after section 210 the following; "Title III -- National Credit Union Administration Discount Fund."

FINDINGS AND PURPOSE

SEC. 301. The Congress finds that the stability of credit unions will encourage savings and will be promoted by establishing a National Credit Union Administration Discount Fund to provide funds to meet emergency and temporary liquidity problems of its members.

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DEFINITIONS

SEC. 302. As used in this title--

(1) The term "member" means any shareholder in the National Credit Union Administration Discount Fund.

(2) The term "Federal credit union" means a Federal credit union organized in accordance with the provisions of the Federal Credit Union Act.

(3) The term "federally-insured credit union" means any credit union insured by the National Credit Union Administration Share Insurance Fund.

(4) The term "state-insured credit union" means any credit union insured by an agency of any state government.

(5) The term "Administrator" means the Administrator of the National Credit Union Administration.

(6) The Term "Board" means the National Credit Union Board.

(7) The term "paid-in and unimpaired capital and surplus" means the balance of the paid-in shares account as of a given date, less any loss that may have been incurred for which there is no reserve or which have not been charged against undivided earnings; plus the credit balance (or less the debit balance) of the undivided earnings account as of a given date, after all losses have been provided for and net earnings or net losses have been added thereto or deducted therefrom. Reserves shall not be considered as part of surplus.

(8) The term "emergency temporary liquidity problem" means any abnormal, immediate demand upon the cash and/or working capital of a credit union in connection with share, share certificate or deposit account withdrawals wherein such credit union does not have, nor will have in the immediate future, the liquid assets from which to satisfy such demand.

ESTABLISHMENT OF THE NATIONAL CREDIT UNION ADMINISTRATION DISCOUNT FUND

SEC. 303. There is hereby created the National Credit Union Administration Discount Fund (hereinafter referred to as the "Discount Fund") which shall exist until dissolved by act of Congress. The principal office of the Discount Fund shall be located at the principal office of the National Credit Union

Administration, but the Administrator of the National Credit Union Administration may establish such district and branch offices as he deems necessary and appropriate.

MANAGEMENT OF THE NATIONAL CREDIT UNION ADMINISTRATION DISCOUNT FUND

SEC. 304. The management of the Discount Fund shall be vested in the Administrator. The Board of the National Credit Union Administration shall also be the Board for the Discount Fund. The Administrator shall seek the advice, counsel, and guidance of the Board with respect to matters of policy relating to the activities and functions of the Discount Fund under this Act. The relationship between the Board and the Administrator shall be the same as the relationship between the Board and the Administrator under Title I of the Act. The Administrator shall:

(a) Administer the affairs of the Discount Fund fairly and impartially and without discrimination in favor of or against any member, and shall, subject to the provisions of this Act, extend to each credit union authorized to secure advances such advances as may be made safely and reasonably with due regard for the claims and demands of other members, and with due regard to the maintenance of adequate credit standing for the Discount Fund and its obligations. In order to carry out the duties and responsibilities accorded the Administrator by this title, the Administrator is authorized to issue such rules and regulations as may be necessary.

(b) The Administrator is authorized to appoint such officers and employees as are not otherwise provided for in this Act, to define their duties, fix their compensation, require bonds of them and fix the penalty thereof, and to dismiss at pleasure such officers or employees. Nothing in this or any other Act shall be construed to prevent the appointment and compensation as an officer or employee of the Administration of any officer or employee of the United States in any board, commission, independent establishment, or executive department thereof.

OPERATION OF THE BOARD

SEC. 305. The Board will operate in the same manner as prescribed in the Federal Credit Union Act, Subchapter I and be entitled to the same privileges and benefits as set forth therein.

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INITIAL EXPENSES

SEC. 306. In order to facilitate the formation of the Discount Fund the Secretary of the Treasury is authorized to advance an amount not in excess of $250,000 to be utilized for the initial organizational and operating expenses of the Discount Fund. Such advance shall bear interest at a rate not less than a rate determined by the Secretary of the Treasury taking into consideration the current average market yield on outstanding marketable obligations of the United States of comparable maturities.

CAPITALIZATION OF THE DISCOUNT FUND

SEC. 307. (a) As soon as practicable after the effective date of this title, the Administrator shall open books for subscription to the capital stock of the Discount Fund.

(b) The capital stock of the Discount Fund shall be divided into shares of a par value of $50 each. The minimum capital stock shall be issued at par. Stock issued thereafter shall be issued at such price not less than par as may be fixed by the Administrator.

(c)(1) The original stock subscription of each credit union eligible to become a member under subsections (f) and (g) of this section shall be an amount equal to at least one-half of one percent of the subscriber's paid-in and unimpaired capital and surplus, but not less than $50. Only one-half of the required subscription amount must be transferred to the Discount Fund. The other one-half may be held by the credit union on call of the Administrator. Any amount on call may be invested in authorized investments under Title I of this Act if they can be immediately liquidated. The Discount Fund shall annually adjust, at the close of the calender year, in such manner and upon such terms and conditions as the Administrator may prescribe, the amount of stock held by each member so that such member shall have invested in the stock of the Discount Fund at least an amount calculated in the manner provided in the preceding sentence (but not less than $50). If the investment of any member in stock is greater than that required under this subsection, it may, unless prohibited by the Administrator or by the provisions of the paragraph (2) of this subsection, in its discretion and upon application of such member, retire the stock of such member in excess of the amount so required. The Administrator may provide for adjustment in the amounts of stock to be issued or retired in that stock may be issued or retired only in entire shares.

(2) The provisions of paragraph (1) of this subsection shall be subject to the following limitation:

> Notwithstanding any other provisions of this subsection, no action shall be taken by the Administrator with respect to any member pursuant to any of the foregoing provisions of this subsection if the effect of such action would be to cause the aggregate outstanding advances, within the meaning of section 303 of this Act or within the meaning of regulations of the Administrator defining the term for the purposes of this sentence, made by the Discount Fund to such member to exceed twelve times the amounts paid in by such member for outstanding capital stock held by such member.

(3) Upon retirement of stock of any member, the Discount Fund shall pay such member for the stock retired an amount equal to the par value of such stock, or, at the election of the Administrator, the whole or any part of the payment which would otherwise be so made shall be credited upon the indebtedness of the member to the Discount Fund. In either such event, stock equal in par value to the amount of the payment or credit, or both, as the case may be, shall be cancelled.

(4) The Administrator may require each member to submit such reports and information as the Administrator deems necessary or appropriate to carry out his duties and responsibilities.

(d) Stock subscriptions shall be paid for in cash, as prescribed in section 307(c), and shall be paid for at the time of application therefor, or, at the election of the subscriber, in installments, but not less than one-fourth of the total amount payable shall be paid at the time of filing the application, and a further sum of not less than one-fourth of such total shall have been paid at the end of each succeeding four months.

(e) Stock subscribed for shall not be transferred or hypothecated except as provided herein and the certificates therefor shall so state.

(f) Each Federally-or State-insured credit union may apply for membership in the Discount Fund within six months of the effective date of this Act, except that such credit unions chartered after enactment of this title may apply within twelve months of the effective date of charter. Thereafter, a Federally- or State-insured credit union may join at any

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time but may not borrow from the Discount Fund for a period of twelve months.

(g) Any member may withdraw from membership in the Discount Fund six months after filing with the Discount Fund written notice of its intention to do so. The Administrator may, after a hearing, under procedures set forth in regulations issued by the Administrator, remove any member from membership, if, in his opinion, the member (i) has failed to comply with any provisions of this Act or regulation of the Administration issued pursuant thereto, or (ii) is insolvent as defined by the Rules and Regulations, or (iii) is bankrupt. In such case, the indebtedness of such member to the Discount Fund shall be liquidated and the capital stock owned by such member surrendered and cancelled. Upon the liquidation of such indebtedness, such member shall be entitled to the return of his collateral, and, upon the surrender and cancellation of such capital stock, the member shall receive a sum equal to the cash paid for subscriptions for the capital stock surrendered.

(h) All members of the Discount Fund shall share, in proportion to their holdings, in annual dividend distributions without preference from the net earnings, the rate of said distribution and the manner of arriving at same to be determined by the Administrator.

NEWLY ORGANIZED CREDIT UNIONS

SEC. 308. Each credit union which is chartered after the enactment of this title and which is accepted for membership in the Discount Fund within one year from the date it is chartered shall pay $25 in cash to be credited to its purchase of stock in the Discount Fund. At the expiration of one year from the date of its charter, a newly-organized credit union which is accepted for membership in the Discount Fund shall subscribe for stock in the Discount Fund in an amount equal to one-half of one percent of the paid-in and unimpaired capital and surplus, but in no event shall this amount be less than $50.

OPERATIONS AND POWERS OF THE ADMINISTRATOR IN ADMINISTERING THE DISCOUNT FUND

SEC. 309. (a) The Administrator shall have power, subject to rules and regulations prescribed by him, to borrow and to give security therefor and to pay interest thereon, to issue debentures, bonds, or other obligations to the Secretary of the Treasury upon such terms and conditions as the Administrator, with the advice and consent of the Secretary of the Treasury, may approve.

(b) The banking or checking accounts of the Discount Fund shall be kept with the Treasurer of the United States, or, with the approval of the Secretary of the Treasury, with a Federal Reserve Bank, or with a bank designated as a depository or fiscal agent of the United States: *Provided*, That the Secretary of the Treasury may waive the requirements of this subsection under such conditions as he may determine: *And provided further*, That this subsection will not apply to the establishment and maintenance in any bank for a temporary period of banking and checking accounts not in excess of $50,000 in any one bank.

(c) The Discount Fund may purchase from any member with its endorsement, any note, draft, or other such obligation presented by the member, under limits to be established by the Administrator.

(d) The Discount Fund shall have succession, until dissolved in accordance with this Act or any other Act of Congress; shall have power in its own name to sue and be sued, to make contracts, to acquire, hold, and dispose of real and personal property necessary and incident to the conduct of its business, to prescribe fees and charges for advances or other services, and to exercise such other powers as may be necessary or incident to carrying out the powers and duties under this Act or any other Act of Congress.

(e) Debentures, bonds, or other obligations issued under paragraph (a) shall at no time exceed five times the total paid-in capital of the Discount Fund as of the time of issue of such debentures, bonds, or other obligations.

(f) Such part of the assets of the Discount Fund as are not required for advances to members or other purposes specified by this Act may be invested, to such extent as the Administrator, with the approval of the Secretary of the Treasury, may deem desirable, in obligations of the United States, in obligations fully guaranteed by the United States, or in obligations or participations issued by an agency or instrumentality of the United States or by an agency of the United States in trust for another agency of the United States.

ADVANCES

SEC. 310. (a) Advances by the Discount Fund.

(1) Any member of the Discount Fund shall be entitled to apply in writing for advances. Such application shall be in a form prescribed by the Administrator. The Administrator may grant or

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deny any application, upon such conditions, terms, and maturities as he may prescribe; provided, however, that the aggregate outstanding advances shall not exceed twelve times the amount paid in by such member for outstanding capital stock subscribed to by such member.

2. The Administrator is authorized to make advances to members upon such security as he may prescribe. Such security may include, but not necessarily be limited to, obligations of the United States, obligations or participations issued by an agency or instrumentality of the United States or by an agency of the United States in trust for another agency of the United States, or notes made by the member in the form of loans to natural persons. Any such advances shall be subject to the following limitations:

(A) If secured by loans made by the member in the form of loans to a natural person, the advance may be in an amount not in excess of 80 per centum of the aggregate unpaid principals of the notes.

(B) If secured by obligations of the United States, obligations fully guaranteed by the United States, or obligations issued in trust by any agency of the United States on behalf of any agency of the United States, the advance shall be for an amount not in excess of the face value of such obligations.

(3) Advances shall be made upon the note or obligation of the member, secured as provided in this section, bearing such market rate of interest as the Administrator shall determine, and the Discount Fund shall have a lien on and shall hold the stock of such member as further collateral security for all indebtedness of the member of the Discount Fund.

(4) The credit union applying for an advance shall enter into a primary and unconditional obligation to pay off all advances, together with interest and any unpaid costs and expenses in connection therewith according to the terms under which they were made, in such form as shall meet the requirements of the Discount Fund and the approval of the Administrator. The Discount Fund shall reserve the right to require at any time, when deemed necessary for its protection,

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deposits of additional collateral security or substitutions of security by the borrowing institution, and each borrowing institution shall assign additional or substituted security when and as required.

(b) Advances to the Discount Fund. The Secretary of the Treasury is authorized to purchase any obligations issued by the Administrator in the event that the Secretary determines that an emergency exists and that there are insufficient funds in the Discount Fund to meet obligations arising under subsection (a) of this section. Advances by the Secretary of the Treasury under this paragraph outstanding at any time shall be limited to such amounts not in excess of $150,000,000 as may be authorized in the appropriation acts. Such advances shall bear interest at a rate not less than a rate determined by the Secretary of the Treasury taking into consideration the current average market yield on outstanding marketable obligations of the United States with remaining periods to maturity comparable to the average maturities of such advances adjusted to the nearest one-eighth of one per centum.

AUDIT OF FINANCIAL TRANSACTIONS

SEC. 311. The Administrator shall maintain an integral set of accounts of the Discount Fund which shall be audited annually by the General Accounting Office in accordance with principles and procedures applicable to commercial corporate transactions as provided by section 105 of the Government Corporation Control Act. An annual business-type budget as provided for wholly-owned government corporations by the Government Corporation Control Act shall be prepared.

ANNUAL REPORT

SEC. 312. Not later than 90 days after the close of each calendar year, the Administrator shall prepare and submit to the President and to the Congress a full report of the activities of the Discount Fund for each previous fiscal year. This report will be a part of the Administrator's annual report to the President and to the Congress, as required by Title I of this Act.

REIMBURSEMENT TO NATIONAL CREDIT UNION ADMINISTRATION

SEC. 313. The Administrator annually shall determine the expenditures under this Act incurred in carrying out the responsibilities imposed upon him, and, in conjunction with fees paid

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for chartering, examination, and supervision of Federal credit unions, shall assess the Discount Fund for its share of such expenses. Receipts derived by the Administrator from the Discount Fund shall be deposited in a special account with the Treasurer of the United States and may be withdrawn therefrom from time to time to defray the expenses of the Administration and the Discount Fund.

TAX EXEMPTION

SEC. 314. The Discount Fund, its property, its franchise, capital, reserves, surplus, security holdings, and other funds, and its income shall be exempt from all taxation now and hereafter imposed by the United States or by any State or local taxing authority; except that any real property and tangible personal property of the Discount Fund shall be subject to Federal, State and local taxation to the same extent according to its value as other such property is taxed.

AMENDMENT TO THE FEDERAL CREDIT UNION ACT

SEC. 512. Section 107 of the Federal Credit Union Act, as amended (12 U.S.C. 1757), is amended by adding at the end thereof the following new subsection numbered (16):

"Notwithstanding any other provisions of law, a Federal credit union shall have the power to subscribe for stock in the National Credit Union Administration Discount Fund if otherwise eligible to do so under the terms of this Act, and to exercise such other functions as may be necessary to participate fully as a member of the Discount Fund."

TITLE VI. GOVERNMENT INSURED AND GUARANTEED MORTGAGE LOANS

SEC. 601. Notwithstanding the provisions of sections 203(b)(5), 207(c)(3), 213(d), 220(d)(4), 220(h)(2)(iii), 221(d)(5), 231(c)(6), 232(d)(3)(B), 234(f), 235(j)(2)(C), 236(j)(4)(B), 240(c)(4), 241(b)(3), 242(d)(3)(B), and 1101(c)(4) of the National Housing Act, and except as provided with respect to section 2(b) of such Act, interest rates for mortgages and loans insured under the National Housing Act shall be as agreed to by the mortgagee and mortgagor, or lendor and borrower, unless the Secretary determines that such rate is excessive in view of the current interest rates in the mortgage or loan market in the areas involved. The Secretary shall prescribe such regulations as may be necessary to assure that mortgagees do not, directly or indirectly, make any charges in the nature of discounts or points in connection with mortgages insured under the National Housing Act, except as provided with respect to section 2(b). The Secretary is authorized to set the maximum interest rates for programs under section 2(b) by establishing the maximum amounts of discount from the original face amount of such loans as he deems necessary to meet the market.

SEC. 602. Chapter 37 of Title 38, United States Code, is amended as follows:

(1) Subsection (c)(1) of section 1803 is amended by putting a period after the phrase "pursuant to this chapter", striking out all that follows thereafter, and inserting in lieu thereof the following:

"The interest rate on loans guaranteed or insured under section 1810 of this chapter shall be as agreed to by the lender and borrower, unless the Administrator determines that such rate is excessive in view of the current interest rates in the mortgage or loan market in the areas involved. The Administrator shall prescribe such regulations as may be necessary to assure that lenders do not, directly or indirectly, make any charges in the nature of discounts or points in connection with loans guaranteed under section 1810 or insured under section 1815 of this chapter.

(2) Subsection (a)(5) of section 1810 is amended by deleting the second sentence thereof.

(3) Subsection (c)(1) of section 1811 is amended to read as follows:

"he is unable to obtain from a private lender in such housing credit shortage area a loan for which he is qualified under section 1810 or 1819 of this chapter as may be appropriate; and"

(4) Subsection (d)(1) of section 1811 is amended to read as follows:

"Loans made under this section shall bear interest at a rate determined by the Administrator, and shall be subject to such requirements or limitations prescribed for loans guaranteed under this title as may be applicable."

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TITLE VII. TO PROVIDE FOR THE UNIFORM APPLICATION OF THE TAX LAWS TO ALL FINANCIAL INSTITUTIONS AND A CREDIT FOR INTEREST FROM QUALIFYING REAL PROPERTY LOANS.

SEC. 701. SHORT TITLE; ETC.

(a) Short Title.--This Title may be cited as the "Uniform Tax Treatment of Financial Institutions Title".

(b) Amendment of 1954 Code.--Except as otherwise expressly provided, whenever in this title an amendment is expressed in terms of an amendment to a section or other provision, the reference is to a section or other provision of the Internal Revenue Code of 1954.

SEC. 702. DEFINITION OF BANK

Section 581 (relating to definition of bank) is amended by striking out all after "purposes" in the first sentence and inserting in lieu thereof: "of this subtitle, the term 'bank' means--

"(1) a bank or trust company doing business under the laws of the United States (including laws relating to the District of Columbia), of any State, or of any Territory, a substantial part of the business of which consists of receiving deposits and making loans and discounts, or of exercising fiduciary powers similar to those permitted to national banks under authority of the Comptroller of the Currency, and which is subject by law to supervision and examination by State, Territorial, or Federal authority having supervision over banking institutions,

"(2) a domestic building and loan association,

"(3) a mutual savings bank not having capital stock represented by shares, and

"(4) a cooperative bank without capital stock organized and operated for mutual purposes and without profit."

SEC. 703. RESERVES FOR LOSSES ON LOANS OF BANKS.

Section 585 (relating to reserves for losses on loans of banks) is amended--

(1) by striking out in subsection (a)(1) "other than an organization to which section 593 applies",

(2) by inserting in subsection (b)(2), immediately after "July 11, 1969" in the last sentence, "(except that for taxpayers which had adopted either method described in section 593 (b)(2) or (4) (as in effect on [day before effective date]) for the last taxable year beginning on or before [the effective date], the base year shall be such taxable year)",

(3) by inserting in subsection (b)(3), immediately following the last sentence, "With respect to taxpayers to which subsection (c) applies, the adoption of the experience method under 593 (b)(1)(A) (as in effect on [day before effective date]) prior to [effective date] shall be disregarded when determining the base year."

(4) by redesignating paragraph "(4) in subsection (b) as paragraph "(5)", and inserting immediately after paragraph (3) thereof the following:

"(4) Charging of bad debts.--Any debt becoming worthless or partially worthless shall be charged to the reserve for losses on loans.", and

(5) by inserting immediately after subsection (b) the following new subsection:

"(c) Special Rules.--For each taxpayer that is an organization described in section 581 (2), (3) or (4) and was in existence on [day before effective date] the net amounts, determined as of the close of the last taxable year beginning on or before [the effective date], accumulated in the reserve for losses on nonqualifying loans, the reserve for losses on qualifying real property loans, and the supplemental reserve for losses on loans as such reserves were maintained under section 593 (c) (as in effect on [day before effective date]), shall be allocated to and constitute--

"(1) the opening balance of the reserve for losses on loans for the first taxable year beginning after [effective date], and

"(2) the balance of the reserve for losses on loans at the close of the base year, where the base year as determined under subsection (b)(2) or (3) is the last taxable year beginning on or before [effective date]."

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SEC. 704. RULES OF GENERAL APPLICATION TO BANKING INSTITUTIONS.

Part I (relating to Rules of General Application to Banking Institutions) of Subchapter H of Chapter 1 is amended by adding at the end thereof the following new sections:

"SEC. 587. FORECLOSURE ON PROPERTY SECURING LOANS.

"(a) Nonrecognition of Gain or Loss as a Result of Foreclosure.--In the case of a creditor which is an organization described in section 581, no gain or loss shall be recognized, and no debt shall be considered as becoming worthless or partially worthless, as the result of such organization having bid in at foreclosure, or having otherwise reduced to ownership or possession by agreement or process of law, any property which was security for the payment of any indebtedness.

"(b) Character of Property.--For purposes of sections 166 and 1221, any property acquired in a transaction with respect to which gain or loss to an organization was not recognized by reason of subsection (a) shall be considered as property having the same characteristics as the indebtedness for which such property was security. Any amount realized by such organization with respect to such property shall be treated for purposes of this chapter as a payment on account of such indebtedness, and any loss with respect thereto shall be treated as a bad debt to which the provisions of section 166 (relating to allowance of a deduction for bad debts) apply.

"(c) Basis.--The basis of any property to which subsection (a) applies shall be the basis of the indebtedness for which such property was secured (determined as of the date of the acquisition of such property), properly increased for costs of acquisition.

"(d) Regulatory Authority.--The Secretary or his delegate shall prescribe such regulations as he may deem necessary to carry out the purposes of this section.

"SEC. 588. DISTRIBUTIONS TO SHAREHOLDERS.

"(a) In General.--For purposes of this chapter, any distribution of property (as defined in section 317 (a)) by an organization described in section 581 (2) to a shareholder with respect to its stock, if such distribution is not allowable as a deduction under section 591, shall be treated as made--

"(1) first out of its earnings and profits accumulated in taxable years beginning after December 31, 1951, to the extent thereof,

"(2) then out of the reserve for losses on loans to the extent total additions to such reserve exceed the maximum additions which would have been allowed under section 585 (b)(3),

"(3) then out of such other accounts as may be proper.

This subsection shall apply in the case of any distribution in redemption of stock or in partial or complete liquidation of the association, except that any such distribution shall be treated as made first out of the amount referred to in paragraph (2), second out of the amount referred to in paragraph (1), and then out of such other accounts as may be proper. This subsection shall not apply to any transaction to which section 381 (relating to carryovers in certain corporate acquisitions) applies.

"(b) Amounts charged to Reserve Accounts and Included in Gross Income.--If any distribution is treated under subsection (a) as having been made out of the reserves described in paragraph (2) of such subsection, the amount charged against such reserve shall be the amount which, when reduced by the amount of tax imposed under this chapter and attributable to the inclusion of such amount in gross income, is equal to the amount of such distribution; and the amount so charged against such reserve shall be included in gross income of the taxpayer.

"(c) Special Rules.--

"(1) For purposes of subsection (a)(2), additions to the reserve for losses on loans for the taxable year in which the distribution occurs shall be taken into account.

"(2) For purposes of computing under section 585 the amount of a reasonable addition to the reserve for losses on loans for any taxable year, any amount charged during any year to such reserve pursuant to the provisions of subsection (b) shall not be taken into account.

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"SEC. 589. DEDUCTION FOR REPAYMENT OF CERTAIN LOANS.

In the case of an organization described in section 581 (2), (3), or (4), there shall be allowed as deductions in computing taxable income amounts paid by the taxpayer during the taxable year in repayment of loans made before September 1, 1951, by (1) the United States or any agency or instrumentality thereof which is wholly owned by the United States, or (2) any mutual fund established under the authority of the laws of any State.

"SEC. 590. ALTERNATIVE TAX FOR MUTUAL SAVINGS BANKS CONDUCTING LIFE INSURANCE BUSINESS.

"(a) Alternative Tax.--In the case of an organization described in section 581(3), authorized under State law to engage in the business of issuing life insurance contracts, and which conducts a life insurance business in a separate department the accounts of which are maintained separately from the other accounts of the mutual savings bank, there shall be imposed in lieu of the taxes imposed by section 11 or section 1201 (a), a tax consisting of the sum of the partial taxes determined under paragraphs (1) and (2):

"(1) a partial tax computed on the taxable income determined without regard to any items of gross income or deductions properly allocable to the business of the life insurance department, at the rates and in the manner as if this section had not been enacted; and

"(2) a partial tax computed on the income of the life insurance department determined without regard to any items of gross income or deductions not properly allocable to such department, at the rates and in the manner provided in subchapter L (sec. 801 and following) with respect to life insurance companies.

"(b) Limitations of Section.--Subsection (a) shall apply only if the life insurance department would, if it were treated as a separate corporation, qualify as a life insurance company under section 801.

"SEC. 591. DEDUCTION FOR DIVIDENDS PAID ON DEPOSITS.

In the case of organizations described in section 581 (2), (3), and (4), and other savings institutions chartered and supervised as savings and loan or similar associations under Federal or State law, there shall be allowed as deductions in computing taxable income amounts paid to, or credited to the accounts of, depositors or holders of accounts as dividends or interest on their deposits or withdrawable accounts,if such amounts paid or credited are withdrawable on demand subject only to customary notice of intention to withdraw."

SEC. 705. MUTUAL SAVINGS BANKS, ETC.

Subchapter H (relating to banking institutions) of Chapter 1 is amended by striking out Part II thereof, and redesignating "Part III" (relating to bank affiliates) as "Part II".

SEC. 706. DEFINITIONS OF DOMESTIC BUILDING AND LOAN ASSOCIATION AND COOPERATIVE BANK.

(a) Domestic Building and Loan Association.--Section 7701 (a)(19) (relating to definition of domestic building and loan association) is amended by--

(1) inserting "Federal savings bank," after domestic savings and loan association,";

(2) inserting "and" at the end of subparagraph (A);

(3) striking out "loans; and" in subparagraph (B), and inserting in lieu thereof "loans,"; and

(4) striking out subparagraph (C).

(b) Cooperative Banks.--Section 7701 (a)(32) (relating to definition of cooperative bank) is amended by striking out all after subparagraph (A), and inserting in lieu thereof;

"(B) engages principally in the business of acquiring the savings of the public and investing in loans.".

SEC. 707. CREDIT FOR INTEREST FROM QUALIFYING RESIDENTIAL MORTGAGE LOANS.

Subpart A of part IV of subchapter A of chapter 1 (relating to credits allowable) is amended by renumbering section 42 as section 43, and by inserting after section 41 the following new section:

"SEC. 42. INTEREST FROM QUALIFYING RESIDENTIAL MORTGAGE LOANS

"(a) Credit Allowed.--There shall be allowed as a credit against the tax imposed by this chapter for a taxable year the amount determined under subsection (b).

"(b) Determination of Amount.--

"(1) General rule.--The amount of credit allowed by subsection (a) for the taxable year shall be equal to the allowable percentage of the interest received or accrued by the taxpayer from a qualifying residential mortgage loan.

"(2) Allowable percentages.--

"(A) Individuals.--In the case of an individual, the allowable percentage for purposes of this subsection shall be 1.5 percent.

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"(B) Other taxpayers.--In the case of a taxpayer other than an individual, the allowable percentage for purposes of this subsection shall be 3.5 percent if, for the taxable year, at least 70 percent of the total assets of such taxpayer are qualifying residential mortgage loans. If, for the taxable year, the percentage of assets of the taxpayer, which are qualifying residential mortgage loans, is less than 70 percent of the total assets of the taxpayer, the allowable percentage shall be 3.5 percent reduced by 1/30 of 1 percentage point for each 1 percentage point (or fraction thereof) of such difference; provided however, that the allowable percentage shall be zero if, for the taxable year, less than 10 percent of the total assets of such taxpayer are qualifying residential mortgage loans.

"(c) Limitations.--

(1) Application with other credits.--The credit allowed by subsection (a) for a taxable year shall not exceed the tax imposed by this chapter, reduced by the sum of the credits allowable under section 33 (relating to foreign tax credit), section 35 (relating to partially tax-exempt interest), section 37 (relating to retirement income), section 38 (relating to investment in certain depreciable property), section 40 (relating to expenses of work incentive programs), and section 41 (relating to contributions to candidates for public office).

(2) Verification.--The credit allowed by subsection (a) shall be allowed, with respect to interest from qualifying residential mortgage loans, only if such interest is verified in such manner as the Secretary or his delegate shall prescribe by regulations.

"(d) Qualifying Residential Mortgage Loan Defined.--

"(1) Except as provided in paragraph (2), for purposes of this section, the term 'qualifying residential mortgage loan' means any loan evidenced by an agreement which constitutes a first lien against the real property in the jurisdiction in which such real property is located (provided such property is located in the United States or a possession thereof), which loan is either--

"(A) a loan (including redeemable ground rents, as defined in section 1055) secured by an interest in real property which is (or, from the proceeds of the loan, will become) residential real property, or a loan made for the improvement of residential real property, provided that for purposes of this clause, residential real property shall include single or multifamily dwellings, facilities in residential developments dedicated to public use or property used on a nonprofit basis for residents, and mobile homes not used on a transient basis, or

"(B) a loan secured by an interest in real property located within an urban renewal area to be developed for predominantly residential use under an urban renewal plan approved by the Secretary of Housing and Urban Development under part A or part B of the title I of the Housing Act of 1949, as amended, or located within any area covered by a program eligible for assistance under section 103 of the Demonstration Cities and Metropolitan Development Act of 1966, as amended, or a loan made for the improvement of any such real property.

For purposes of subparagraph (A), if a multifamily structure securing a loan is used in part for non-residential purposes, the entire loan is deemed a qualifying residential mortgage loan if the planned residential use exceeds 80 percent of the property's planned use (determined as of the time the loan is made). For purposes of subparagraph (A), a loan made to finance the acquisition or development of land shall be deemed to be a qualifying residential loan if, under regulations prescribed by the Secretary or his delegate, there is reasonable assurance that the property will become residential real property within a period of 3 years from the date of acquisition of such land; but this sentence shall not apply for any taxable year unless, within such 3-year period, such land becomes residential real property.

"(2) For purposes of this section, the term 'qualifying residential mortgage loan' does not include --

"(A) any loan evidenced by a security (as defined in section 165 (g) (2) (C))

"(B) any loan, whether or not evidenced by a security (as defined in section 165 (g) (2) (C)), the primary obligor on which is --

"(i) a government or political subdivision or instrumentality thereof;

"(ii) a bank (as defined in section 581); or

"(iii) another member of the same affiliated group;

"(C) any loan, to the extent secured by a deposit in or share of the taxpayer; or

"(D) any loan which, within a 60-day period beginning in one taxable year of the creditor and ending in its next taxable year, is made or acquired and then repaid or disposed of, unless the transactions by which such loan was made or acquired and then repaid or disposed of are established to be for bona fide business purposes.

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For purposes of subparagraph (B) (iii), the term "affiliated group" has the meaning assigned to such term by section 1504 (a); except that (i) the phrase "more than 50 percent" shall be substituted for the phrase "at least 80 percent" each place it appears in section 1504 (a), and (ii) all corporations shall be treated as includible corporations (without any exclusion under section 1504 (b)).

"(3) For purposes of this section, a qualifying residential mortgage loan shall include an instrument which during its term represents an interest in one or more qualifying residential mortgage loans. The payment terms, yields, maturities and other provisions of such instrument may be different from those of the underlying residential mortgages so long as the terms and provisions of such instrument reasonably reflect anticipated principal and interest payments on the underlying mortgages, including consideration for retirements or prepayments of the underlying mortgages.

"(e) Carryback and Carryover of Unused Credits.--

"(1) Allowance of credit.--If the amount of the credit determined under subsection (b) for any taxable year exceeds the limitation provided by subsection (c) for such taxable year (hereinafter in this subsection referred to as "unused credit year"), such excess shall be--

"(A) a credit carryback to each of the 3 taxable years preceding the unused credit year, and

"(B) a credit carryover to each of the 7 taxable years following the unused credit year,

and shall be added to the amount otherwise allowable as a credit by this section for such years, except that such excess may be a carryback only to a taxable year ending after /insert effective date/. The entire amount of the unused credit for an unused credit year shall be carried to the earliest of the 10 taxable years to which (by reason of subparagraphs (A) and (B)) such credit may be carried, and then to each of the other 9 taxable years to the extent that, because of the limitation contained in paragraph (2), such unused credit may not be added for a prior taxable year to which such unused credit may be carried.

"(2) Limitation.--The amount of the unused credit which may be added under paragraph (1) for any preceding or succeeding taxable year shall not exceed the amount by which the limitation provided by subsection (c) for such taxable year exceeds the sum of--

"(A) the amount of credit determined under subsection (b) for such taxable year, and

"(B) the amounts which, by reason of this subsection, were added to the amount allowable for such taxable year and attributable to taxable years preceding the unused credit year.

"(f) Estates and Trusts.--In the case an estate or trust--

"(1) the interest from qualifying residential mortgage loans for a taxable year shall be apportioned between the estate or trust and the beneficiaries on the basis of the income of the estate or trust allowable to each, and

"(2) any beneficiary to whom interest from qualifying residential mortgage loans has been apportioned under paragraph (1) shall be treated (for purposes of this section) as the taxpayer who received or accrued the interest from qualifying residential mortgage loans, and such interest shall not(by reason of such apportionment) lose its character as interest from qualifying residential mortgage loans.

"(g) Small Business Corporations.--In case of an electing small business corporation (as defined in section 1371)--

"(1) the interest from qualifying residential mortgage loans for a taxable year shall be apportioned pro rata among the persons who are shareholders of such corporation on the last day of such taxable year, and

"(2) any person to whom any interest from qualifying residential mortgage loans has been apportioned under paragraph (1) shall be treated (for purposes of this section) as the taxpayer who received or accrued such interest, and such interest shall not (by reason of such apportionment) lose its character as interest from qualifying residential mortgage loans.

"(h) Credit Disallowed. The credit allowed by subsection (a) shall be denied a taxpayer that--

"(1) is formed or availed of primarily for the purpose of obtaining such credit, or

"(2) issues obligations that are--

"(A) supported by an authority to borrow from the Treasury of the United States, and

"(B) approved, at issuance, by the Department of the Treasury of the United States.

The Secretary or his delegate may prescribe such regulations as he may deem necessary in order to carry out the intent of paragraph (1).".

SEC. 708. CONFORMING AND CLERICAL AMENDMENTS.

(a) Section 11 (e) (1) (relating to exceptions to tax imposed on corporations) is amended by striking out "594" and inserting in lieu thereof "590".

(b) Section 46 (d) (1) (relating to limitations on investment credit) is amended by striking out subparagraph (A), redesignating subparagraphs (B) and (C) as subparagraphs (A) and (B), respectively.

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(c) Section 46 (d) (2) is amended by striking out subparagraphs (A), redesignating subparagraphs (B) and (C) as subparagraphs (A) and (B), respectively, and striking out "subparagraph (B)" where it appears in the flush material and inserting in lieu thereof "subparagraph (A)".

(d) Section 57 (a) (7) (relating to items of tax preference) is amended by striking out "or 593".

(e) Section 166 (h) (relating to bad debts) is amended by striking out paragraph (3) thereof, and by redesignating paragraph "(4)" as "(3)".

(f) Section 172 (b) (1) (F) (relating to years to which net operating losses may be carried back and carried over) is amended by striking out "585, 586, or 593" and inserting in lieu thereof "585 or 586".

(g) Section 246 (relating to rules applying to deductions for dividends received) is amended by striking out subsection (e) thereof.

(h) Section 381 (c) (relating to items taken into account in certain corporate acquisitions) is amended by adding at the end thereof the following new paragraph:

> "(25) Credit under section 42 for interest from qualifying residential mortgage loans.--The acquiring corporation shall take into account (to the extent proper to carry out the purposes of this section and section 42, and under such regulations as may be prescribed by the Secretary or his delegate) the items required to be taken into account for purposes of section 42 in respect of the distributor or transferor corporation."

(i) Section 582 (c) (1) (relating to bad debts, etc., with respect to securities held by financial institutions) is amended by striking out "585, 586, or 593" and inserting in lieu thereof "585 or 586".

(j) Section 811 (b) (relating to deduction for dividends to policyholders) is amended by striking out "594" in the second sentence and inserting in lieu thereof "590".

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(k) Section 1038 (f) (relating to certain reacquisitions of real property) is amended by striking out the heading and inserting in lieu thereof "Certain reacquisitions", and striking out "593 (a)" and inserting in lieu thereof "581".

(l) Section 6096 (b) (relating to income tax liability) is amended by striking out "40 and 41" and inserting in lieu thereof "40, 41 and 42".

(m) Statutes of limitations and interest relating to residential mortgage loan credit carrybacks.--

(1) Assessment and collection.--Section 6501 (relating to limitation on assessment and collection) is amended by adding at the end thereof the following new subsection:

"(p) Residential Mortgage Loan Credit Carrybacks.--In the case of a deficiency attributable to the application to the taxpayer of a residential mortgage loan credit carryback (including deficiencies which may be assessed pursuant to the provisions of section 6213 (b) (2)), such deficiency may be assessed at any time before the expiration of the period within which a deficiency for the taxable year of the unused residential mortgage loan credit which results in such carryback may be assessed, or, with respect to any portion of a residential mortgage loan credit carryback from a taxable year attributable to a net operating loss carryback or a capital loss carryback from a subsequent taxable year, at any time before the expiration of the period within which a deficiency for such subsequent taxable year may be assessed."

(2) Credit or refund.--Section 6511 (d) (relating to limitations on credit or refund) is amended by adding at the end thereof the following new paragraph:

"(8) Special period of limitation with respect to residential mortgage loan credit carrybacks.--

"(A) Period of limitation.--If the claim for credit or refund relates to an overpayment attributable to a residential mortgage loan credit carryback, in lieu of the 3-year period of limitation prescribed in subsection (a), the period shall be that period which ends with the expiration of the 15th day of the 40th month (or 39th month, in the case of a corporation) following the end of the taxable year of the unused residential mortgage loan credit which results in such carryback (or, with respect to any portion of a residential mortgage loan credit carryback from a taxable year attributable to a net operating loss carryback or a capital loss carryback from a subsequent taxable year, the period shall be that period which ends with the expiration of the 15th day of the 40th month, or 39th month, in the case of a corporation, following the year of such taxable year) or the period prescribed in subsection (c) in respect of such taxable year, whichever expires later. In the case of such a claim, the amount of the credit or refund may exceed the portion of the tax paid within the period provided in subsection (b) (2) or (c), whichever is applicable, to the extent of the amount of the overpayment attributable to such carryback.

"(B) Applicable rules.--If the allowance of a credit or refund of an overpayment of tax attributable to a residential mortgage loan credit carryback is otherwise prevented by the operation of any law or rule of law other than section 7122, relating to compromises, such credit or refund may be allowed or made, if claim therefor is filed within the period provided in subparagraph (A) of this paragraph. In the case of any such claim for credit or refund, the determination by any court, including the Tax Court, in any proceeding in which the decision of the court has become final, shall not be conclusive with respect to the residential mortgage loan credit, and the effect of such credit, to the extent that such credit is affected by a carryback which was not in issue in such proceeding."

(3) Interest on underpayments.--Section 6601 (e) (relating to income tax reduced by carryback or adjustment for certain unused deductions) is amended by adding at the end thereof the following new paragraph:

"(5) Residential mortgage loan credit carryback.--If the credit allowed by section 42 for any taxable year is increased by reason of a residential mortgage loan credit carryback, such increase shall not affect the computation of interest under this section for the period ending with the last day of the taxable year in which the residential mortgage loan credit carryback arises, or, with respect to any portion of a residential mortgage loan carryback from a taxable year attributable to a net operating loss carryback or a capital loss carryback from a subsequent taxable year, such increase shall not affect the computation of interest under this section for the period ending with the last day of such subsequent taxable year."

(4) Interest on overpayments.--Section 6611 (f) (relating to refund of income tax caused by carryback or adjustment for certain unused deductions) is amended by adding at the end thereof the following new paragraph:

"(4) Residential mortgage loan credit carryback.--For purposes of subsection (a), if any overpayment of tax imposed by subtitle A results from a residential mortgage loan credit carryback, such overpayment shall be deemed not to have been made prior to the close of the taxable year in which such residential mortgage loan credit carryback arises, or, with respect to any portion of a residential mortgage loan credit carryback from a taxable year attributable to a net operating loss carryback or capital loss carryback from a subsequent taxable year, such overpayment shall be deemed not to have been made prior to the close of such subsequent taxable year."

(n) Tentative Carryback Adjustments.--

(1) Application for adjustment.--Section 6411 (relating to quick refunds in respect of tentative carryback adjustments) is amended--

(A) by striking out "or unused work incentive program credit" each place it appears in such section and inserting in lieu thereof "unused work incentive program credit, or residential mortgage loan credit",

(B) by inserting after "section 172 (b)," in the first sentence of subsection (a) "by a residential mortgage loan carryback provided in section 42 (e),", and

(C) by inserting after "investment credit carryback" in the second sentence of subsection (a) "a residential mortgage loan carryback,"

(2) Tentative carryback adjustment assessment period.--Section 6501 (m) (relating to tentative carryback adjustment period) is amended--

(A) by striking out "or a work incentive program carryback" and inserting in lieu thereof "a work incentive program carryback, or a residential mortgage loan carryback", and

(B) by striking out "(j) or (o)" each place it appears and inserting in lieu thereof "(j), (o), or (p)".

(o) The table of parts of subchapter H of chapter 1 is amended by striking out "Part II. Mutual savings banks, etc." and "Part III. Bank affiliates", and inserting in lieu thereof "Part II. Bank affiliates".

(p) The table of sections of part I of subchapter H of chapter 1 is amended by adding immediately after the last item the following:

"Sec. 587. Foreclosure on property securing loans.

"Sec. 588. Distributions to shareholders.

"Sec. 589. Deduction for repayment of certain loans.

"Sec. 590. Alternative tax for mutual savings banks conducting life insurance business.".

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"Sec. 591. Deduction for dividends paid on deposit.

(q) The table of sections of subpart A of part IV of subchapter A of chapter 1 is amended by striking out the last item and inserting in lieu thereof the following:

"Sec. 42. Interest from qualifying residential mortgage loans.

"Sec. 43. Overpayments of tax."

SEC. 709. EFFECTIVE DATE.

The amendments made by this Title shall be effective for taxable years beginning after the date of enactment of this Act.

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REFERENCE TABLE

President's Recommendations	Corresponding Section in Legislation	U.S. Code Citation	Act Citation
1. N.O.W. accounts	101	12 U.S.C. 221a	Sec. 2 Banking Act of 1933
	104	12 U.S.C. 1813	Sec. 3 Federal Deposit Ins. Act
	105	12 U.S.C. 1422	Sec. 2 Federal Home Loan Bank Act
	202	12 U.S.C. 1462	Sec. 2 Home Owners Loan Act of 1933
		12 U.S.C. 1464	Sec. 5 Home Owners Loan Act of 1933
	203	P.L. 93-100	Sec. 2(a) Act of Aug.16, 1973
2. Extension of savings accounts to corporate customers by national banks	105(b)	12 U.S.C. 1425b	Sec. 5B(a) Fed. Home Loan Bank Act
	201(a)	12 U.S.C. 371a	Sec. 19(i) Fed. Reserve Act
3. Expanded authority for FHLBB to define collateral acceptable for loans to S&L's	301(e)	12 U.S.C. 1430	Sec. 10 Federal Home Loan Bank Act
4. Voluntary membership in FHLB system with FSLIC insurance	301(b)	12 U.S.C. 1464(c)	Sec. 5c Home Owners Loan Act of 1933
	301(c)	12 U.S.C. 1425a	Sec. 5A(b) FHLB Act
	301(d)	12 U.S.C. 1730a	Sec. 408(e)(1)(A) National Housing Act

President's Recommendations	Corresponding Section in Legislation	U.S. Code Citation	Act Citation
5. Retaining the prohibition against the payment of interest on demand deposits	105(b)	12 U.S.C. 1425b	Sec. 5B(a) Fed. Home Loan Bank Act
6. Making federal charters available for stock S&L's and mutual savings banks from FHLBB	401	12 U.S.C. 1462	Sec. 2(d) Home Owners Loan Act of 1933
		12 U.S.C. 1464	Sec. 5 Home Owners Loan Act of of 1933
		12 U.S.C. 1725(a)	Sec. 402 National Housing Act
		12 U.S.C. 1726(a)	Sec. 403(a) National Housing Act
7. Removing interest ceilings on a) FHA insured and b) VA guaranteed loans	a) 601		National Housing Act
	b) 602	38 U.S.C. 1803(c)(1), 1811(c)(1), 1811(d)(1), 1815(b)	
8. Establishing a Central Discount Fund for credit unions	511	12 U.S.C. 1751 1790 new section	Federal Credit Union Act new section

President's Recommendations	Corresponding Section in Legislation	U.S. Code Citation	Act Citation
9. Establishing a uniform tax formula for major depository institutions	702	26 U.S.C. 581	Corresponding section of Internal Revenue Code of 1954
	703	26 U.S.C. 585	"
	704	26 U.S.C. Chapter 1 H new sections	"
	705	26 U.S.C. Chapter 1 H	"
	706	26 U.S.C. 7701(a)(19)	"
	707	26 U.S.C. Chapter 1 A IV A new section	"
	708	26 U.S.C. 46(d)(1) 26 U.S.C. 46(d)(2) 26 U.S.C. 50A(a)(3) 26 U.S.C. 57(a)(7) 26 U.S.C. 166(h) 26 U.S.C. 172(b)(1)(f) 26 U.S.C. 246 26 U.S.C. 381(c) 26 U.S.C. 1038(f) 26 U.S.C. Table 1 H 26 U.S.C. Table 1 A IV A	

President's Recommendations Corresponding Section in Legislation U.S. Code Citation Act Citation

President's Recommendations	Corresponding Section in Legislation	U.S. Code Citation	Act Citation
10. Expanding authority of Federal Reserve Board to discount commercial bank assets	303	12 U.S.C. 347b	Sec. 10b Federal Reserve Act
11. Removal of interest ceilings in 5 1/2 years and determination of ceilings by FDIC, FHLBB, Federal Reserve Board and Treasury	101	12 U.S.C. 221a	Sec. 2 Banking Act of 1933
	102	12 U.S.C. 371b	Sec. 19(j) Federal Reserve Act
	103	12 U.S.C. 371b	Sec. 19(j) Federal Reserve Act
	104	12 U.S.C. 1813 12 U.S.C. 1828(g)	Sec. 3 Federal Deposit Ins. Act Sec. 18(g) Federal Deposit Ins. Act
	105	12 U.S.C. 1422 12 U.S.C. 1425b(a)	Sec. 2 Federal Home Loan Bank Act Sec. 5B(a) Federal Home Loan Bank Act
12. (a) Third party payment checking accounts for all depository institutions and	202	12 U.S.C. 1464(b)	Sec. 5 Home Owners Loan Act of 1933
(b) Credit cards for all such institutions	202(d)	12 U.S.C. 1464(b), (c)	Sec. 5 (b), (c) Home Owners Loan Act of 1933

President's Recommendations	Corresponding Section in Legislation	U.S. Code Citation	Act Citation
13. Uniform reserves on N.O.W.s and demand deposits and range of deposit reserves	201(b)	12 U.S.C. 461(b)	Sec. 19(b) Federal Reserve Act
	201(c)	12 U.S.C. 461(c)	Sec. 19(c) Federal Reserve Act
	202(i)	12 U.S.C. 1425a	Sec. 5A Federal Home Loan Bank Act
14. Expanded lending powers for banks			
a. real estate	301(a)	12 U.S.C. 1464(c)	Sec. 5(c) Home Owners Loan Act of 1933
	302(a)	12 U.S.C. 24	Sec. 5136 Revised Statutes of U.S.
	302(b)	12 U.S.C. 371	Sec. 24 Federal Reserve Act
b. leeway authority	301(a)	12 U.S.C. 1464(c)	Sec. 5(c) Home Owners Loan Act Of 1933
	302(c)	12 U.S.C. 24	Sec. 5136 Revised Statutes of U. S.
15. Truth-in-Savings	106	new section	new section
16. Clearing house procedures	202(f)	12 U.S.C. 143(e)	Sec. 11(e) Federal Home Loan Bank Act
	202(g)	12 U.S.C. 342	Sec. 13 Federal Reserve Act
	202(h)	12 U.S.C. 248(o)	Sec. 16 Federal Reserve Act

President's Recommendations Corresponding Section in Legislation U.S. Code Citation Act Citation

President's Recommendations	Corresponding Section in Legislation	U.S. Code Citation	Act Citation
17. Federal Home Loan Bank Board authority over thrift institution securities	402	15 U.S.C. 781	Sec. 12 Securities Exchange Act of 1934
		12 U.S.C. 1730(1)(5)	Sec. 407(1) National Housing Act
18. Liberalization of credit union powers	501-510	12 U.S.C. 1752	Sec. 101 Federal Credit Union Act
		12 U.S.C. 1753	Sec. 103 Federal Credit Union Act
		12 U.S.C. 1757	Sec. 107 Federal Credit Union Act
		12 U.S.C. 1761c	Sec. 114 Federal Credit Union Act
		12 U.S.C. 1763	Sec. 117 Federal Credit Union Act
		12 U.S.C. 1766	Sec. 120 Federal Credit Union Act

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FOR IMMEDIATE RELEASE October 12, 1973

DAVID KENNEDY AND WILLIAM McCHESNEY MARTIN
NAMED TO ADVISORY COMMITTEE ON MONETARY REFORM

Treasury Secretary George P. Shultz today announced the appointments of former Treasury Secretary David M. Kennedy and former Federal Reserve Board Chairman William McChesney Martin to the "Advisory Committee on Reform of the International Monetary System."

In announcing the formation of the Committee in August, Secretary Shultz noted:

"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 Committee, now numbering 16 members, will hold its second meeting at the Treasury on Thursday, October 18.

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FOR IMMEDIATE RELEASE October 12, 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 October 25, 1973, in the amount of $4,300,790,000 as follows:

91-day bills (to maturity date) to be issued October 25, 1973, in the amount of $2,500,000,000, or thereabouts, representing an additional amount of bills dated July 26, 1973, and to mature January 24, 1974 (CUSIP No. 912793 SV9) originally issued in the amount of $1,701,950,000, the additional and original bills to be freely interchangeable.

182 -day bills, for $1,800,000,000, or thereabouts, to be dated October 25, 1973, and to mature April 25, 1974 (CUSIP No. 912793 TJ5).

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, October 19, 1973. Tenders will not be received at the Treasury Department, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

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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 **October 25**, 1973, in cash or other immediately available funds or in a like face amount of Treasury bills maturing **October 25, 1973.** Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder must include in his income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

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

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FOR IMMEDIATE RELEASE October 12, 1973

TREASURY ANNOUNCES ACTIONS ON
FOUR INVESTIGATIONS UNDER THE ANTIDUMPING ACT

Assistant Secretary of the Treasury Edward L. Morgan announced today actions on four investigations under the Antidumping Act of 1921, as amended.

In the first case, there is a withholding of appraisement pending completion of the antidumping investigation; in the second case, there is a tentative discontinuance; the third case is an initiation of an antidumping investigation; and the fourth action is a finding of dumping. These decisions will appear in the Federal Register of October 15, 1973.

In the first case, Assistant Secretary Morgan announced that the Treasury is withholding appraisement on hand-operated plastic pistol-grip type liquid sprayers from Japan. 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 1972 through February 1973, imports of pistol-grip sprayers from Japan totaled approximately $410,000.

In the second case, Treasury announced its intent to discontinue the antidumping investigation with respect to hand-operated plastic pistol-grip sprayers from Korea. The notice states in part that, "the information developed during the investigation by the U.S. Customs Service tends to indicate that sprayers once considered as possibly being from Korea, are actually assembled with Japanese components in a Korean free trade zone, never enter the commerce of the Republic of Korea, and are destined for the United States at the time they are

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exported from Japan. Furthermore, the proper country of origin marking for these sprayers has been determined to be Japan. Based upon these facts, the exports of the Japanese subsidiary operating in the Korean free trade zone are considered exports of Japan for purposes of this antidumping investigation. Since no other manufacturer produces these sprayers in Korea, there have been no exports of hand-operated plastic pistol-grip type liquid sprayers from the Republic of Korea. . ."

In the third case, Assistant Secretary Morgan announced the initiation of an antidumping investigation on imports of photo albums 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. During the period of January through September 1973, imports of these photo albums from Canada were valued at approximately $100,000.

In the fourth case, the Treasury is issuing a dumping finding with respect to steel wire rope from Japan. This rope is used for many purposes, among them elevator ropes, winch lines, cranes, and conveyors. On June 7, 1973, the Treasury Department determined that this merchandise from Japan was being sold at less than fair value within the meaning of the Antidumping Act. On September 7, 1973, the Tariff Commission advised the Treasury that there was injury to a U.S. industry, and on September 27, 1973, the Commission sent a letter of clarification to Treasury. In this letter the Commission stated that it "did not intend to include in its affirmative determination an imported product described as brass electroplated steel truck tire cord of cable construction specially packaged for protection against moisture and atmosphere." Since the Tariff Commission has not found injury or likelihood of injury with respect to this particular product, an appropriate exception from the dumping finding is being made. The dumping finding automatically follows as the final administrative requirement in antidumping investigations. Dumping duties will be assessed on the covered imports of steel wire rope from Japan which have dumping margins. During the period of January 1972 through March 1973, imports of steel wire rope from Japan were valued at approximately $13.5 million.

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FOR IMMEDIATE RELEASE OCTOBER 15, 1973

SUBSTANTIAL OIL SAVINGS POSSIBLE

In support of the President's energy conservation program, the Treasury Department today listed selected actions that could be taken by the American public and industry to reduce energy demand.

"Savings could amount to the equivalent of about three million barrels of oil a day, assuming an all-out effort," according to William E. Simon, Deputy Secretary of the Treasury and Chairman of the President's Oil Policy Committee.

Total U. S. oil consumption presently is about 17 million barrels a day. The United States imports about six million barrels of oil daily, of which 1.1 million barrels come directly from North Africa and the Middle East, 2.7 million come from the Caribbean and Latin America, and 1.4 million from Canada.

"The savings resulting from these conservation measures are an impressive indicator of just how much waste could be eliminated from our energy consumption habits without severe economic consequences or major changes in life style. If consumers would voluntarily implement these measures, the savings could enable the United States to avoid an energy problem," Mr. Simon said.

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The Treasury list, contained in Table II, is a summary of selected conservation measures. The final report will contain a more detailed list, as well as suggestions on how these measures might be implemented.

Savings for industry are based on a two percent cutback in fuel use (almost 280,000 barrels per day), which can be achieved within 60 days. Another three percent (over 400,000 b/d) can be achieved within six months. Industry sources estimate that ten percent savings are entirely feasible within 18 months.

The savings for commercial buildings are based on a ten percent cut in fuel use, and can easily be achieved with little or no cost, such as changing thermostat settings and reducing use of lighting.

In addition to the actions listed in Table II, consumers can also save on fuel consumption in other ways. These include:

- Adding insulation to ceilings (6") and walls (4");
- Installing storm windows and doors, caulking, and weatherstripping
- Properly maintaining heating systems; removing dust from registers and ducts, replacing and cleaning filters, and adjusting burners;
- Opening drapes and venetian blinds on sunny days, and closing them at night;
- Installing and using humidifiers; and
- Lowering thermostat settings at night and when buildings or rooms are unoccupied.

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TABLE I

Average daily U. S. imports (oil and oil product)
Selected Countries
Second Quarter 1973

Country or Region	Barrels Per Day (000)	Percent of Imports	Percent of U.S. Use
Canada	1,367	23.7	7.9
Venezuela	926	16.1	5.3
Algeria	153	2.6	.9
Egypt	21	0.4	0.1
Libya	154	2.7	0.9
Tunisia	30	0.5	0.2
Nigeria	445	7.7	2.5
Iran	210	3.6	1.2
Iraq	3	0.1	-
Kuwait	58	1.0	0.3
Saudi Arabia	396	7.0	2.3
Indonesia	209	3.6	1.2

Total U. S. consumption: 17 million barrels

TABLE II

Emergency Energy Conservation Measures Having Potential for Sizeable Savings in Near Future

	Maximum Savings, per year, Equivalent Barrels per day*
1. Reset thermostats controlling room temperature in homes (By 3° summer and winter)	550,000
2. Improve efficiency of energy utilization in industry (2%)	280,000
3. Improve efficiency of energy use in commercial buildings (10%)	400,000
4. Mandatory automobile tuneup every 6 months	140,000
5. Stop use of hot water for laundering (cold water detergents)	180,000
6. Reduce speed limits for passenger cars to 50 MPH	250.000
7. Increase load factors on commercial aircraft to 70% from 50%	120,000
8. Wider use of car pools (2.3 passengers in lieu of 1.3)	780,000
Annual Average Total	2,700,000
Winter Rate Total	3,300,000
Summer Rate Total	2,100,000

*Total of all petroleum products plus natural gas plus other energy derived from petroleum, such as electricity produced by oil, rounded to two significant figures. Natural gas saved can be used to substitute for oil, since many oil users can burn both oil and gas.

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FOR RELEASE 12:00 NOON, CDT
WEDNESDAY, OCTOBER 17, 1973

REMARKS BY THE HONORABLE JOHN M. PORGES
U.S. EXECUTIVE DIRECTOR OF THE
INTER-AMERICAN DEVELOPMENT BANK
AT THE BAKER HOTEL, DALLAS, TEXAS, WEDNESDAY,
OCTOBER 17, 1973 BEFORE THE DALLAS COUNCIL ON
WORLD AFFAIRS AND THE ROTARY CLUB OF DALLAS

I am very pleased to be in Texas with the Dallas Council on World Affairs and the Rotary Club of Dallas in my new capacity as the U.S. Executive Director of the Inter-American Development Bank at a time when Texas is rapidly expanding its business horizons. Latin America, through its proximity and its many needs, plays a key role in this expansion.

Texas is becoming increasingly important in carrying on the day-by-day trade and commerce which form the backdrop of U.S. relations with Latin America. This growth can, in large part, be attributed to the people of Texas and their internationally-oriented outlook. In Dallas alone -- the financial center of the state -- you have a new Trade Mart to encourage business development. The Council on World Affairs promotes interest in current international issues. And the distinguished Texas Congressional delegation in Washington continues to provide leadership in the U.S. Congress on matters relating to Latin American affairs. In fact, members of the Texas Congressional delegation hold important posts on key House and Senate committees dealing with U.S.-Latin American relations.

While the commercial aspects of these relations are very important, we must also keep in mind the human element. Latin America needs help to develop its resources so that its people can enjoy a higher standard of living which many of us take for granted. As we look south at Latin America, we see a vast continent buffeted by the forces of political, economic and social change. These forces are not unique to Latin America, they are paralleled in all developing areas of the world.

In turn, the international economic order of the world has been in unusual ferment in the 1970's and the changes that have been and are being wrought in the international economic system will have profound implications not only for our own economy but also for our future relations with Latin America.

Clearly President Nixon's dramatic announcement of August 15, 1971 gave public acknowledgment to the new economic situation in the world. Implicit in his statement was the recognition that the United States, while remaining a big, powerful, and rich economy, no longer was the only country in this position. This announcement in turn pinpointed the urgent need to examine the existing monetary rules, trade rules and aid arrangements towards the end of adjusting these to the new realities of the 1970's. This process has been difficult and has required difficult adjustments in our domestic economy as well as in the international economy.

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The agenda before the United States remains full. Important trade talks at the Ministerial level opened last month in Tokyo with Secretary of the Treasury George Shultz heading the U.S. delegation. Shortly thereafter, Nairobi was the scene of the International Monetary Fund's and World Bank's annual meeting, where the delegates continued to concentrate on the extremely important and delicate effort to construct a new and viable international monetary system.

The Nairobi meeting also considered the major concern of promoting the economic growth of the developing world, and I will return to this subject in greater detail in a few minutes.

These international meetings have a highly important domestic counterpart. New authorizing legislation is needed from the U.S. Congress to allow our negotiators to conduct meaningful trade talks in the years ahead. A major trade bill (H.R. 10710) has now been favorably reported by the House Ways and Means Committee, responding to the Administration's desire to secure prompt passage of its legislative proposal. Changes in the par value of the dollar automatically require Congressional authorization under existing legislation. Clearly the funding of our bilateral and multilateral aid programs also require authorization and appropriation by the U.S. Congress. Major funding bills towards this end will be before the Congress this fall.

These funding bills are designed to provide operating monies for the three key multilateral institutions working in the aid field, including the International Bank for Reconstruction and Development (commonly known as the World Bank), the Inter-

American Development Bank and the Asian Development Bank. The activities of these institutions -- on which little public attention has been focused -- are rather closely coordinated with our bilateral assistance program.

Secretary Shultz has recently made the following statement about these international financial institutions:

"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 towards global cooperation, it is essential that the United States maintain its fair share of 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 shared responsibility and leadership."

I would like to emphasize the point the Secretary made regarding shared responsibility and shared leadership. In these multilateral development institutions we have been joining with other nations in providing the capital and expertise which will assist the economic development of the poorer nations of the world and better integrate these nations into the mainstream of the international economic system. Our financial contribution

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to these institutions is carefully determined and in these negotiations cognizance is given to the changing economic realities. For example, developed nations such as Japan and West Germany, which have experienced a more rapid economic growth than the United States over the past decade, are now carrying a heavier financial responsibility -- as they should. In turn, in percentage terms, the U.S. financial share of the total package contribution has been reduced.

In looking at the activities of the international financial institutions, there are certain facts that deserve greater public attention -- facts which indicate that there is more than do-goodism involved in our support of these institutions. These include:

1. The economic expansion of the countries of the developing world encourages growth in world export and import markets and this provides opportunities for U.S. suppliers. Opportunities for U.S. suppliers in turn create jobs for the American worker.

2. In these times of inflation, developing countries which are a prime source of raw materials and semimanufactured products, help augment supplies of a wide variety of products which are short supply. In the years ahead, as the U.S. increasingly becomes a have-not nation in many essential minerals and metals, our need for these goods from the developing world will grow.

3. The international financial institutions promote participation by the private sector in the financing of development assistance through the sale of their bonds in the private capital markets. In turn, both domestic and foreign private investment

in the less developed countries increases when the banks finance infrastructure and other important economic development projects.

4. The hard loan operations of the international financial institutions have had a major positive impact on the United States balance of payments. This positive contribution reflects procurement in the United States and investments in the United States pending loan disbursement. And even while the soft loan operations of the international financial institutions have had a moderately negative impact on the U.S. balance of payments, <u>the overall balance of payments effect from total international financial institutions operations has been favorable to the U.S.</u>

For example, in 1972 the positive balance of payments effect of the international financial institutions was approximately $400 million.

Procurement deserves special mention. While there have been continuing claims that U.S. producers are discriminated against or are not given suitable advantages, empirical evidence clearly indicates that on an overall basis, such claims are not justified. And I can assure you that the U.S. Government has established procedures whereby U.S. business is informed about procurement opportunities. Naturally my office seeks to point them out whenever possible. Perhaps heightened aggressiveness on the part of the private sector is needed to exploit such opportunities. With additional price advantages due to devaluation of the dollar, U.S. industry will be in a much more competitive position to bid on procurement.

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Let me now make some observations about the institution to which I have been appointed by the President of the United States as the U.S. Executive Director. The Inter-American Development Bank will be 14 years old at the end of this year and throughout its short life it has played an important role in promoting the overall economic growth of Latin America. Up through December 31, 1972 the Bank's cumulative lending reached $5,441 million, net of cancellations and exchange adjustments, distributed in 719 individual loans. The Bank's lending volume of $807 million in 1972 represented a broad advance in the Bank's objectives of achieving a lending level of approximately $1 billion yearly over the next five years, compared with the $600 million level which characterized its annual operations over the past three years. The Bank has become the largest lender to Latin America. The Bank has played an important part in the recent impressive performance of the Brazilian economy, in Colombia's recent substantial achievements, and in helping to lay the conditions for the present dynamism found in Caracas and Mexico City. In general terms it can be doubted whether the overall economic growth rate of Latin America would have reached 5.6 per cent in the decade of the 1960's without the efforts of the Bank and its sister institutions.

The question has been asked and will continue to be asked -- where have all the monies gone, and what good have they done? The President of the Bank, Mr. Antonio Ortiz Mena, the distinguished Mexican statesman who served his country as Secretary of the Treasury for some 12 years before joining the Bank as its chief executive officer, answered this question in a recent speech. I would like to quote him:

"They have gone principally to make the agricultural and industrial sectors of our Latin American members viable in both economic and social efforts, with pure water and proper sanitation facilities, with decent housing and other urban and rural community facilities, and with improved educational facilities required in today's technological world. More specifically, improving and bringing into production 6.5 million acres of land, making 730,000 credits through Latin American development institutions to improve output and productivity on small and medium scale farms and ranches; building or expanding more than 4,000 industrial enterprises; constructing or improving 4,500 miles of main highways and building 17,000 miles of farm to market roads; modernization of 14 ports and grain elevator facilities; installation of 6.7 million kilowatts of electric power generating facilities; stringing 4,000 miles of transmission lines; building 330,000 housing units for low income families; and modernizing or expanding 560 learning centers composed of 95 universities and 465 technical institutes."

Even if I weren't connected with the Bank, I would judge this a rather impressive list comprising the type of infrastructure and economic and social development projects needed to spur the long-term development of the countries of Latin America.

I had the opportunity to visit some of the Bank's projects in Bolivia, Brazil and Venezuela in August of this year. It was gratifying to see how much has been accomplished in providing

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potable water and sewage facilities in those countries, as well as seeing a peasant colonization project in Venezuela whose purpose is to give people a stake in their community and keep them from migrating to the cities.

Finally, let me turn from the past record and look briefly to the future. Canada became a full-fledged member of the Bank last year and we are now looking to the prompt accession of some fourteen non-regional members to the Bank, including Japan and the countries of Western Europe. Intensive negotiations have been underway for some time towards this end and I am confident of their success in the period ahead. This expansion of the Bank's membership to include non-regional "contributor" nations as members is an important forward-looking step.

Another major policy initiative that is being carried forward is that of increasingly giving preferential treatment in lending policy and technical assistance to the growth of its least developed member countries. In 1972, 30.3 per cent of the Bank's total lending and some 62 per cent of its concessional lending in soft loans went to the poorer countries of Latin America. This trend and emphasis will continue in the months and years ahead. This policy is consistent with U.S. policy and interest in encouraging the richer countries of Latin America, such as Mexico and Brazil, to provide increasing flows of economic aid and technical assistance to the poorer nations of Latin America.

The last point I wish to mention in this view of the future is the Bank's desire to act more and more as a catalyst in projects of broad economic impact in the region. Under this policy the Bank increasingly will continue to exercise leadership in attracting capital to finance projects of a magnitude that require much larger resources than those the Bank could provide. In turn, the Bank will continue to associate itself with other financial agencies and with bilateral aid agencies and private sources of capital in financing major projects.

Hopefully, as integration efforts in Latin America become increasingly vigorous, additional projects whose scope includes more than one country will become feasible and viable. This would give additional impetus to the Bank's lending program in support of projects designed to further the eventual economic integration of Latin America.

In the years ahead these activities of the Inter-American Development Bank will require the support of the business community, the academic community, civic leaders and our elected representatives. I do feel they are worthy of your continued support.

I thank you for your attention.

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EMBARGOED FOR RELEASE UNTIL
10:00 A.M., EDT, OCTOBER 16, 1973

TESTIMONY BY DR. WILLIAM A. JOHNSON
SPECIAL ASSISTANT TO THE DEPUTY SECRETARY OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON MERCHANT MARINE OF THE HOUSE
MERCHANT MARINE AND FISHERIES COMMITTEE
TUESDAY, OCTOBER 16, 1973

Mr. Chairman and Members of the Committee:

I am delighted to have this opportunity to appear before you today to discuss H.R. 8193 and similar bills that would require a percentage of U.S. oil imports to be carried on U.S. flag vessels. My prepared statement will address the proposed legislation and the specific questions which the Department of Treasury has been asked to comment upon. But first, let me discuss the broader issue of U.S. energy supply which, I feel, must also be considered by this Committee in the drafting of the proposed legislation.

The Shortage of Energy

First, let me assert that we have an energy crisis. Moreover, this crisis is no hoax or contrivance by the major oil companies. It is real and poses, perhaps, the most serious threat to our national security and well-being

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since World War II. Also, the crisis will be with us for at least a decade and will get worse before it gets better. The inconveniences which we experience in 1973 and 1974 will become major dislocations and disruptions in 1975 and 1976.

The shortages which we are now experiencing are very largely a fossil fuel problem. Moreover, these shortages have less to do with depletion of our fossil fuel reserves than with our failure to develop these reserves as rapidly or as effectively as possible. Finally, our shortages of gas, coal, and oil over the next decade are very largely the result of ill-conceived policies of federal, state, and local governments. For years we have been sacrificing the long-run interests of our Nation to secure short run objectives such as unrealistically low prices for consumers and the too rapid application of environmental controls and restrictions. Now, unfortunately, we are paying for these policies.

A good example is natural gas. The conscious decisions of past Federal Power Commissions to keep gas prices as low as possible, regardless of the consequences on future exploration, and, worse, to change retroactively prices already approved by the FPC has discouraged investment in drilling. As a result, we have created a shortage that need not have occurred and, because of this shortage, many consumers of natural gas are now being forced to switch to oil.

The net effect of our policies toward coal, our Nation's most abundant fuel, has been the same. To meet air quality standards, the utilities, the principle consumers of coal in this country, have been switching to oil, in this way deepening the oil shortages that our country now faces. We have also discouraged underground mining and, if Congress passes unnecessarily restrictive strip-mining legislation, we may also discourage coal produced at the surface.

At a time when we should have been intensifying our exploration efforts to find more oil, we have, instead, reduced the depletion allowance, imposed especially stringent price controls on the industry, withdrawn leases for environmental reasons, blocked construction of the Alaskan pipeline, and have set back and delayed development of our off-shore and Arctic reserves. We have also discouraged the building of refineries, largely because of uncertainties about emissions standards and oil import policies and objections to particular refinery sites by state and local governments.

For all these reasons, we now have no alternative to greater reliance on imported oil and, in particular, oil from the Middle East. This has created a major security and financial threat to the United States. In addition, there is now real concern that the foreign oil on which we have counted will not be available and there will be a scramble among the world's oil importers for the relatively little oil that is available. Many oil producing countries are beginning to worry about depletion of their reserves. As a result, these countries are enacting laws and orders restricting output. In addition, the foreign exchange holdings of some Middle Eastern countries have been growing or are expected to grow at a rate faster than they can be spent. These newly acquired foreign exchange reserves are depreciating in value while oil in the ground is increasing in value. A case is being made in the councils of the producing countries to defer production because prices and profits will be even greater in the future than they are now. Finally, we can only ignore at our peril the involvement of Middle Eastern oil in Middle Eastern politics. Most producing governments in the Middle East are now threatening the use of their oil as a political weapon in opposition to U.S. policies toward Israel.

In short, the world's oil economy has changed and changed drastically. There are fewer and fewer suppliers of oil and a growing number of buyers; now the producers are calling the tune and are able to charge whatever price the market will bear.

Crude oil imports are only half the problem. About 50 percent of our oil imports are petroleum products. Product imports will have to grow rapidly for at least four or five years until new refinery capacity comes on stream. The reason why we must increase our product imports is our failure to build new refinery capacity in recent years.

Will foreign refineries be able to produce the gasoline, heating oil, and residual fuel oil that our economy needs? Most spare capacity in the world is in Europe. The sulfur levels of heating oil and residual fuel oil produced in Europe are higher than levels permitted by existing environmental standards. If we are to purchase the additional product we need from Europe we will have to relax the sulfur limits in our clean air standards.

What about the available amounts of foreign petroleum products. Is there sufficient excess capacity in Europe and the Western Hemisphere so that foreign refineries can meet our needs? The Belgians, Italians, Spanish, and Turks are now restricting exports of petroleum products to the United States, while the Canadians are restricting exports of both crude oil and petroleum products. These countries have been concerned that the United States will dry up available oil supplies and also drive up prices. They are also deeply concerned about prospective shortages stemming from the current fighting in the Middle East.

To put it bluntly, we must stop kidding ourselves that we can easily turn to imports to meet major deficits of crude oil and finished products in the United States. We will have to work to obtain the foreign oil we must have.

HR 8193 Could Deepen Our Nation's Energy Shortage

I hope that the Committee will excuse my having begun my testimony with an extended discussion of the energy crisis and what it means to our country. The primary concern of my office, as well as other parts of the Administration concerned with energy matters, has been the resolution of this crisis and avoidance of crippling shortages that now threaten our Nation. This should also be a primary concern of this Committee in its deliberations.

My basic objection to the proposed legislation is that it could intensify the energy crisis. As I understand it, a major objective of the bill is to stimulate employment in the shipping industry. However, to the extent that it impedes imports of vitally needed oil, it will create unemployment in the petrochemical, automobile, machine tool, and other industries that are dependent upon oil or oil products as feedstocks or sources of energy. We are confronted with a difficult and unpleasant choice in allocating scarce petroleum products. We must decide whether to use fuel for heating and generating electricty for farms and homes, or supplying industry with necessary feedstocks. When we allocate fuel oil to America's homes, we will be forced to take it from America's industry. It is better that we import as much oil as possible over the next five years and to do this we must remove, not create, obstacles to trade.

How will we transport critically needed imports of crude oil and products to the United States? Table 1 presents the projected consumption of oil and expected sources of U.S. oil imports through 1985. Assuming a mixture of 90,000 and 265,000 DWT tankers to ship crude oil and products over short and long hauls, respectively, we estimate that the United States will require a total vessel capacity of almost 100 million deadweight tons by 1985. At present, U.S. flag tanker capacity totals 9.6 million deadweight tons. For U.S. flag vessels to carry 30 percent of our oil imports by 1985 would require an increased capacity of about 20 million deadweight tons. To provide this increased tonnage U.S. yards would need to construct sixty 265,000 DWT tankers and fifty 90,000 DWT tankers over the next 11 years.

This is an impossible requirement. We will need to reserve some shipyard capacity for the military shipbuilding program, for the construction of the equivalent of thirty-two 90,000 DWT tankers to transport Alaskan North Slope oil to the West Coast, and for the building of LNG vessels.

Table 1

U. S. Petroleum Consumption
And Sources of Oil Imports
(1,000 Barrels per Day)

	1970	1975	1980	1985
Domestic Demand	14,728	18,400	22,790	26,885
U.S. Production	11,328	10,800	10,500	9,725
North Slope Crude	--	--	1,500	2,000
Total Imports	3,418	7,600	10,790	15,160
Source of Imports:				
From Canada (Pipeline)	766	1,300	1,800	2,200
Total Waterborne Imports	2,652	6,300	8,990	12,960
From Western Hemisphere	2,091	3,200	3,280	4,106
From Europe	177	200	300	400
Total in small tanker	2,268	3,400	3,580	4,506
From Middle East	185	2,325	4,610	7,354
From S.E. Asia	72	175	100	100
From Africa	127	400	700	1,000
Possible for large tankers	384	2,900	5,410	8,454

SOURCE: U.S. Department of the Interior

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We will also have to build vessels to replace much of the existing fleet. U.S. yards will probably be unable to produce the number of U.S. flag vessels required for these purposes, as well as by the proposed legislation, until the middle of the next decade.

What, then, would the bill do? For one thing, it may impede our importation of badly needed crude oil and products, in this way confronting American consumers with an even greater likelihood of shortages than now exists and requiring consumers to pay even higher prices than will be necessary to encourage adequate levels of output.

The legislation now under consideration would extend cargo preference, for the first time, to commercial cargoes. Passage of this legislation could encourage similar measures by other governments. We are especially concerned that it may encourage oil producing countries to put similar restrictions on their exports, thereby further reducing our flexibility and, possibly, restricting our supplies of crude oil. In discussions with representatives of several of these countries in recent weeks it is clear that part of the price for greater oil imports will be our willingness to foster expansion of related industries in the producing countries. One area in which several of these countries are interested in expanding their capabilities is ocean shipment of oil. The proposed legislation could well be inconsistent with the aspirations and demands of these countries,with the result that they will sell their oil instead to other consuming nations that are less insistent upon using their own tankers.

Our flexibility in shipping oil to the United States would also be impaired. When we incurred interruptions in supply in the past, we managed to maintain oil flows by drawing on the entire world tanker fleet, regardless of flag, ownership, or nationality of crews. Our ability to move tankers from one route to another would be severely hampered if we were required to transport critically needed imports from a specific country on U.S. tankers. Again, the result might well be curtailment in imports.

We are also concerned about the inflationary impact of the cargo preference legislation. The legislation would create a captive market for U.S. flag tankers. Without the moderating effects of foreign competition, shipping rates would tend to rise. Moreover, this increased cost of oil imports would have to be passed on to American consumers. The familiar argument that the economic rents accruing to importers bringing in low cost foreign oil no longer applies. The costs of foreign oil delivered to the United States are now higher than domestic oil prices, and are likely to increase still further as foreign prices continue to rise. Any increase in the delivered cost of oil as a result of higher shipping costs will have to be passed on directly to the ultimate consumer, or else we would run the risk of discouraging imports. Moreover, an increase in the price of imported oil will, in the absence of price controls, tend to pull the prices of domestic oil upward as well.

The higher price that will have to be paid for imported oil because of the proposed legislation may also restrict our ability to out-compete Europe and Japan for the world's limited supplies of crude oil and products. Producers will find it more profitable to divert oil to countries that do not impose restrictions on the flag of tankers, in this way, increasing the likelihood that the United States will be unable to satisfy the growing needs of its citizens for oil and oil products.

In short, during the next decade we will have to compete with all our ability if we are to obtain the imported crude oil and products we will need to maintain our living standards and assure orderly growth of our economy. For this reason, we must avoid artificial barriers to imports and cost increases which might divert badly needed imports of oil to other parts of the world. The proposed legislation would, in my judgment, be one more policy impediment delaying the solution of our energy crisis.

<u>The Bill Would Be Nearly Impossible To Administer</u>

There is a provision in H.R. 8193 that limits applicability of the bill to the extent such vessels are available at fair and reasonable prices for United States flag vessels. A finding that inadequate U.S. vessels are available at fair and reasonable prices would negate the intent of this legislation. Yet this finding will be necessary, I suspect, for at least a decade. This would place the Administration in the unwanted position of having to nullify an Act of Congress by administrative direction.

On June 12, 1973, I testified before this Committee on proposed legislation that would authorize the construction of deepwater ports. At that time I noted that, by far, the major component of the cost of shipping oil to the United States was the cost of the tanker and that a requirement to use U.S. tankers could be the decisive factor determining the location of a deepwater port in Canada or the Bahamas rather than on the East and Gulf Coasts of the United States. That estimate assumed the 50 percent requirement of the Garmatz Bill. A rough calculation suggests that the disincentive to construction of a U.S. deepwater port, although substantially less under the terms of this bill, would still exist.

It is argued by some that this objection has been eliminated by requiring that, eventually, 30 percent of all oil destined for the United States must be carried in U.S. flag vessels, even if it is hauled between two non-U.S. ports, such as Kuwait and Rotterdam. I cannot imagine how this could be policed, because oil is frequently pooled and loses its identity as it passes through the refinery process. Perhaps more important, such a restriction would, in effect, deny certain product imports that happen to have been manufactured from crude shipped in foreign bottoms. Yet, once again, we will need every drop of oil we can lay our hands on. We cannot afford the luxury of being selective.

The cargo preference program, when combined with the existing subsidy program, would also create major inequities. Under the Merchant Marine Act of 1970, government subsidies are provided for construction and operation of new U.S. flag ships. The 1970 Act represents a long term commitment by the Administration and the Congress to building a modern U.S. flag fleet which will be competitive with the fleets of the rest of the world. Under the proposed legislation, some operators able to receive direct government subsidies would also receive an additional indirect subsidy resulting from their captive market. This would generate windfall profits in the form of a double subsidy for these operators and would place them at an unfair competitive advantage.

Finally, I do not know how an equitable distribution of the U.S. flag requirements among shippers could be achieved. If some importers are required to use U.S. flag tankers while others are not, this could also impose a substantial competitive disadvantage on some but not on others. Yet, it would be impossible to require that each importer bring in 30 percent of his oil on U.S. flag tankers. A number of companies make spot purchases abroad and import only one or two tanker loads a year. Others hold title to a percentage of a load. In short, I see no way that this bill can be administered in a manner that is fair and impartial and does not put some companies at a disadvantage.

The Balance of Payments Impact of the Proposed Legislation

I have been asked to comment upon the savings in foreign exchange that would result from enactment of H.R. 8193. We estimate that, annually, about $315 million in direct trade would be diverted from foreign to U.S. expenditures between 1976 and 1980.

Owners of American flag tankers finance their construction in the United States, while owners of foreign flag tankers finance their vessels overseas. At present, foreign shipyards provide financing for up to 80 percent of the cost of a vessel. This means that American owners of foreign flag vessels must only provide 20% of equity financing for ship construction. This factor ensures that the initial balance of payments effect due to construction in the United States is small.

For the period 1976 to 1980, assuming that the current fleet makeup is continued, the net balance of payments outflow for construction would be about $150 million* Assuming that 25 percent of the fleet must be American flag through mid-1977 and 30 percent through 1980, and that American and non-American foreign-owned fleets remain in the same proportion to each other, the net outflow for construction would be $113 million, a savings of $37 million over the five year period or annual savings of $7.4 million.

The balance of payments savings in direct freight costs would be far larger. To arrive at a predictable, if somewhat conservative estimate we can assume freight rates equal

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* This assumes a nominal size tanker of 210,000 DWT and a capital cost of $33.5 million in constant 1971 dollars.

to average cost including a fair return on capital. Assuming, also, that the present fleet configuration is maintained, the direct balance of payments outlay for the period 1976 - 1980 would be $5.95 billion; for the fleet envisioned under H.R. 8193, $4.41 billion, for an annual savings of $308 million. The total balance of payments savings of $315 million amount to only 3.4 percent of the 1972 balance of payments deficit.

Let me stress, however, that I think it highly unlikely that the United States would achieve $315 million in savings each year because of enactment of this bill. No account is made for possible immitation by foreign countries. We have no idea, for example, what the loss in U.S. shipping might be if foreign countries imposed similar restrictions on their imports or exports.

Nor is it likely that the balance of payments savings would result only from a switch from foreign to U.S. tankers. As I have indicated, in the extremely tight crude oil and product market with which we are now confronted, the result of this bill, if enacted, would probably be reduced imports. Should this happen, we will have a substantially improved balance of payments position, but at the cost of disruption to our economy and intensified fuel shortages for the American public. I do not think that the balance of payments savings are worth that price or should be a primary consideration in the decision to enact this bill.

Finally, I have been asked to discuss tax policy in relation to the provisions of H.R. 8193. A discussion prepared by the Treasury Department's Tax Division is contained in the Appendix to my testimony.

Thank you very much.

Attachments

APPENDIX

The income tax treatment of foreign income, including income from foreign oil operations, depends on whether the foreign income is earned by a "branch" of a U.S. corporation, or by a foreign subsidiary. Income from foreign sources earned by a subsidiary incorporated in a foreign country is usually not taxed by the United States until it is repatriated in the form of dividends. On the other hand, a U.S. corporation is taxed currently on all income earned abroad by a foreign branch. A substantial portion of oil company operations abroad are conducted through branches. Generally, the corporation can reduce that income by the same deductions that would be applicable if the income were earned domestically. Thus, a U.S. corporation is entitled to deduct currently all expenses incurred either in the United States or by a foreign branch operation that qualify as "intangible drilling costs" (IDC). These expenses include costs of site preparation and drilling.

Income earned from foreign oil operations is entitled to claim the same deduction for percentage depletion that may be claimed with respect to domestic oil operations. The percentage depletion deduction is equal to 22 percent of "gross income from mineral production," up to a maximum deduction of 50 percent of net income computed without regard to the depletion deduction.

In general, a U.S. taxpayer is allowed a foreign tax credit against his U.S. tax liability on foreign income. Generally, the amount of the tax credit is limited to the amount of U.S. tax on the foreign income. Thus, a corporation that pays foreign income taxes on income earned by a foreign branch is entitled to credit such foreign income taxes against its U.S. income tax within such limitation. However, in the case of foreign income taxes paid on foreign mineral income with respect to which the company has elected to deduct percentage depletion in computing its U.S. income tax, an additional limitation is imposed which generally provides that excess foreign tax credits attributable to the allowance of percentage, rather than cost depletion by the United States on foreign mineral income, are not to be allowed as a tax credit against U.S. tax otherwise payable on non-mineral income. In addition, the investment tax credit enacted in 1971 is not available for assets used outside the United States.

In April 1973, the Treasury Department proposed to the Congress two measures that would have some effect on foreign oil operations. First, the Treasury Department proposed that where deductions had been taken against domestic source income as, for example, in the case of intangible drilling costs and other start-up expenses in a foreign country, and in a subsequent year the company earned profits that were taxed in the foreign country, the allowable foreign tax credit in such profitable years would be reduced by an amount related to the prior losses deducted against U. S. source income. This would prevent companies from deducting foreign losses against U. S. income and claiming full tax credits against U. S. tax when the foreign operations became profitable without taking into account the prior losses. Second, the Treasury Department proposed that the income of foreign subsidiaries of U. S. companies engaged in manufacturing and processing, including refining, be taxed annually to the controlling U. S. shareholders, whether or not the income was not distributed to them, where such subsidiaries are subject to a substantially lower foreign tax rate than the U. S. rate and where the subsidiaries export at least a quarter of their production to the United States.

Subpart F and Other Shipping Exceptions

Under the Subpart F "tax haven" provisions of U. S. law, enacted in 1962, profits which a foreign subsidiary earns from the rendering of services to a U. S. parent company are usually taxed currently to the U. S. company, whether or not the profits are repatriated in the same year in the form of dividends. However, a special exception applies where the foreign subsidiary receives income from the rendering of shipping services to a U. S. parent company or other affiliate. Thus, if an oil company forms a foreign subsidiary which buys or leases an oil tanker and, in turn, receives income from the oil company for the use of the tanker, any profit earned by the subsidiary remains

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untaxed until it is repatriated by the parent as dividends. Similarly, income received by a foreign shipping subsidiary from unrelated persons is not subject to U.S. tax until repatriated as a dividend. Certain additional U.S. tax benefits apply if the subsidiary operates through a "less developed country" corporation.

In addition, there is a general exception from U.S. taxation for foreign flag ships (whether or not the foreign shipping company is controlled by United States shareholders) under section 883 of the Internal Revenue Code. This provision provides that the gross income of a foreign corporation is exempt from U.S. income tax with respect to earnings derived from the operation of ships documented under the laws of a foreign country which grants an equivalent exemption to citizens of the U.S. and to corporations organized in the U.S. Thus, if the internal law of a foreign jurisdiction exempts the income of U.S. corporations with respect to U.S. flag shipping calling at their ports, the U.S. automatically exempts the income of corporations organized in the other country with respect to foreign flag shipping calling at U.S. ports.

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

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

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DESCRIPTION	AMOUNT ISSUED 1/	AMOUNT REDEEMED 1/	AMOUNT OUTSTANDING 2/	% OUTSTANDING OF AMOUNT ISSUED
MATURED				
Series A-1935 thru D-1941	5,003	4,999	4	.08
Series F and G-1941 thru 1952	29,521	29,500	21	.07
Series J and K-1952 thru 1957	3,754	3,747	7	.19
UNMATURED				
Series E 3/ :				
1941	1,925	1,742	183	9.51
1942	8,499	7,675	824	9.70
1943	13,666	12,360	1,306	9.56
1944	15,945	14,355	1,590	9.97
1945	12,555	11,163	1,392	11.09
1946	5,729	4,940	788	13.75
1947	5,463	4,581	882	16.14
1948	5,665	4,675	990	17.48
1949	5,624	4,564	1,060	18.85
1950	4,937	3,954	983	19.91
1951	4,270	3,420	850	19.91
1952	4,479	3,562	917	20.47
1953	5,132	4,003	1,129	22.00
1954	5,233	4,027	1,205	23.03
1955	5,453	4,160	1,293	23.71
1956	5,272	3,989	1,283	24.34
1957	4,975	3,718	1,257	25.27
1958	4,867	3,546	1,321	27.14
1959	4,572	3,293	1,279	27.97
1960	4,597	3,223	1,374	29.89
1961	4,690	3,169	1,521	32.43
1962	4,566	3,003	1,563	34.23
1963	5,134	3,184	1,949	37.96
1964	5,004	3,110	1,894	37.85
1965	4,893	3,011	1,882	38.46
1966	5,287	3,107	2,180	41.23
1967	5,200	3,046	2,154	41.42
1968	4,939	2,841	2,099	42.50
1969	4,649	2,575	2,074	44.61
1970	4,868	2,391	2,477	50.88
1971	5,604	2,328	3,276	58.46
1972	6,171	1,999	4,172	67.61
1973	3,678	607	3,070	83.47
Unclassified	378	375	3	.79
Total Series E	193,918	141,698	52,220	26.93
Series H (1952 thru May, 1959) 3/	5,485	4,003	1,481	27.00
H (June, 1959 thru 1972)	9,261	3,127	6,135	66.25
Total Series H	14,746	7,130	7,616	51.65
Total Series E and H	208,664	148,828	59,836	28.68
All Series – Total matured	38,278	38,246	32	.08
All Series – Total unmatured	208,664	148,828	59,836	28.68
All Series – Grand Total	246,942	187,074	59,868	24.24

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

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FOR RELEASE 6:30 P.M. October 15, 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 October 18, 1973, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing January 17, 1974		26-week bills maturing April 18, 1974	
	Price	Equivalent annual rate	Price	Equivalent annual rate
High	98.200	7.121%	96.350	7.220%
Low	98.172	7.232%	96.330	7.259%
Average	98.183	7.188% 1/	96.339	7.242% 1/

Tenders at the low price for the 13-week bills were allotted 31%.
Tenders at the low price for the 26-week bills were allotted 73%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 46,710,000	$ 36,710,000	$ 17,555,000	$ 7,055,000
New York	3,022,085,000	2,023,965,000	3,102,305,000	1,535,620,000
Philadelphia	26,395,000	26,395,000	33,750,000	8,620,000
Cleveland	49,950,000	39,805,000	25,490,000	19,755,000
Richmond	23,405,000	22,845,000	12,260,000	10,945,000
Atlanta	24,450,000	19,760,000	29,155,000	15,460,000
Chicago	236,500,000	101,600,000	316,585,000	106,515,000
St. Louis	56,135,000	31,735,000	55,565,000	20,865,000
Minneapolis	45,665,000	29,285,000	41,910,000	9,775,000
Kansas City	51,685,000	46,685,000	33,485,000	23,880,000
Dallas	42,465,000	21,775,000	36,600,000	12,780,000
San Francisco	136,725,000	100,260,000	76,605,000	29,475,000
TOTALS	$3,762,170,000	$2,500,820,000 a/	$3,781,265,000	$1,800,745,000 b/

a/ Includes $328,450,000 noncompetitive tenders accepted at the average price.
b/ Includes $182,590,000 noncompetitive tenders accepted at the average price.
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 7.42 % for the 13-week bills, and 7.62 % for the 26-week bills.

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SECRETARY OF THE TREASURY GEORGE SHULTZ

Commonwealth Room

October 12, 1973

Department of the Treasury

CHAIR: ...to put your cotton picking hands on anything you wish.

[Applause.]

SECRETARY OF THE TREASURY GEORGE SHULTZ: Well, I was told in a meeting the other day about energy to keep my cotton picking hands off that, somebody else's jurisdiction. And after listening to the comments, I know that that's a break. But I agree with the kind of statements made here. It's a constant source of frustration to think that you can see pretty clearly things that just have to be done and to not be able to figure out how to get them done. And I want to reflect a little bit on that theme in what I have to say as I come to the end of my remarks, because I think that what we get down to often is this interplay between politics and economics, and trying to somehow have enough politics in economics to make it workable and go and be supported, and not to have so much in it that the economics doesn't work any more. And right now, at least in my judgment, we've got more in it than we need. And our job is to try and get it out again.

[Applause.]

What I would like to do in using my time here -- and I take it we have till about 11:00...

CHAIR: Eleven o'clock.

SECRETARY SHULTZ: ...is to divide that into some comments of mine and time for questions and statement, although after listening to the treatment of Secretary Dent, why, I don't know. I may filibuster for the whole fifty minutes.

What I thought I would do is two things; first, to have something to say about the scope and thrust of economic policy, as I see it. And here I'll be presenting, for the most part, a kind of interpolated laundry list, just to give an idea of the types of things that are being worked on now and which suggest the nature of what will continue to unfold in economic policy problems, and to say something about its underlying thrust, as I see it; what we at least are trying to do. And then, second, to assess where we are in Phase IV and what our thinking is on that.

Well, now, turning to the first part of the subject and starting in my laundry list, of course the first subject that we have been working on and working on very hard is the budget and fiscal restraint. We generally have the buzz words of monetary and fiscal policy in economics. I see my friend, Milton Friedman, is here. I'll leave monetary policy to him, and I'll just comment briefly on the budget side. And I think we have seen, and you all know, a downward movement of the deficit as the economy has moved up, and it has gradually come down from fiscal '72 to fiscal '73, to fiscal '74. And just how fiscal '74 will finally turn out, of course, remains to be seen. But I believe that it is quite possible to balance the budget in the range of two hundred and seventy billion dollars, which is about where we estimate the revenues are now. There is a good bit of sentiment, a lot of sentiment, that we must curtail the spending. There was a good experience in fiscal '73, and we wound up better than we even expected, and way better than the critics thought was even at all possible. So I think this is doable. The President continues to stay on this track. He continues to veto bills that carry the spending well over the budget. The vetoes continue to be sustained. And he continues to be on the track of saying the way to do this job is through controlling spending and not by raising taxes. And nobody has successfully knocked him off that perch as yet, and I hope that nobody does.

So that is the overall budget policy that we're on. And I believe that going back to the way in which the sort of natural evolution has taken place from fiscal '72 to '3 to '4, that there is some vindication there for the notion of the full employment budget, because that did give us the intellectual yardstick with which to, in a sense, say how much of a deficit was tolerable at times when we wanted to expand the economy and where to draw a line and stand and fight, which we did all of last year, basically, on that concept. And now the concept provided some discipline, and now we're getting the benefits of, in that if we can just hold on to this spending caravan, the possibility is there for balancing the budget in this fiscal year.

So that's one big area of economic policy. And we have been on that wicket. We're continuing on that, and the President's very firmly fixed in that policy vein.

Second, I would point to a whole lot of things that we're doing and more that we would like to do -- and it's difficult to do them -- but things oriented to increase supply. And we have tried to organize ourselves. John Dunlop in the Cost of Living Council has been regarding this as one of the most important things to be done in Phase IV. And that is to look around the government and find every cotton pickin' thing you can where the government is doing something that is restricting supply and see if we can't unbutton it.

Now, we find these things. You can all make a list a hundred yards long. And if we can unbutton, say, one out of ten, that's pretty good. It's a very frustrating process. But at any rate, a lot is being done. I'm sure you're familiar with all the things that were done in the field of agriculture, beginning in late 1972. And we are beginning to see the payoffs from that now in terms of some developments on the food price front, particularly wholesale. And I might say people talked about the market, and does the market work? I think you were commenting about supply and demand, and I'll come back to this in the Phase IV comments. But with respect to basic food commodities, it's been a rather startling performance in the last four or five months, because there we basically felt we should take our heart in our hands and just let go and see what happened. And I think you all know what happened: the prices went skyrocketing in the middle of the summer. And yet since we had all the controls anybody could think of, somehow or other nobody could say, well, the easiest way to do that is with controls. And people started screaming about the high prices. We have had this big increase in supply that was coming along as a result of the policy actions. And the results as of closing prices yesterday measured against the midsummer highs are rather startling, and I'll just read them off to you. You're probably familiar with them, but they're still startling.

Soybeans are down forty-nine percent from their midsummer highs; soybean meal, fifty-five percent; soybean oil, twenty-five percent. Wheat is still up there. It's only down nine percent. Corn's down twenty-five percent. Cattle, twenty-eight percent. Hogs, thirty-two percent. Broilers, thirty-eight percent. Well, there's a certain amount of supply and demand in that picture, and people do respond to high prices. And I might say, with all due respect to the conservation ethic and efforts to promote conservation in energy, I think probably a lot of the explanation for lower consumption, if we're getting it and if we get it in the future, will be a response to price. And I know my friends in the automobile industry come in and complain to me about nobody's buying big cars any more, and all they can sell are these unprofitable little ones, and they want me to be sympathetic. But I can't be. I can only say, "Well, that's the price system." And it works. Well, that's sort of a digression, but it goes under this heading of actions to increase supply. And so there's the agriculture area. And we're continuing on that. And the planting this year I think is just going to be gigantic, because the prices are so attractive that it just invites it.

We have been trying to draw down the government's stockpiles of all kinds of things that we hold, that the Defense Department declares to be nonstrategic any more. There're about two billion dollars worth that the administration can just do something about administratively. There's another five to six billion dollars for which we need congressional approval. It's practically impossible to get the congressional approval. We've been working at it for months, and we're gradually beginning. I think we've got some hearings now scheduled. It's a long, hard labor to get freed up. And of course, while everybody agrees -- and this is an example -- everybody agrees it's a great idea to control inflation by working on supply, and, as a general proposition, we certainly ought to get rid of these stockpiles, and that would break some of these prices. However, not in my industry, please. And so we get that around from a lot of sources, and that's one of the reasons why it's so difficult to do the things that have been talked about here that are so obviously important to do.

Our attitude toward the boom in plant and equipment spending is God bless it. That's the way we're going to increase supply in the long run. That's the way we're going to get our costs down. So for gosh sakes, let's not try to prick that balloon by knocking out the investment tax credit or some other things. Let's encourage that. That's supply oriented.

I think there's a pretty good chance we're actually going to get the legislation that will allow the Alaska Pipeline to be built. So that's important. That has been one of the most agonizing, frustrating things that anyone can imagine. But perhaps we are beginning to wake up on this energy business. I know we're late. I do think it is a part of our process that it's awfully difficult to get anything hard done until people realize that, boy, we really have a problem. Then you can get somewhere. So I think that, frustrating as it is, maybe we just ought to have it sink in that there is a problem; then we'll be able to break through some of these areas. I think it is beginning to sink in. We're in there on the natural gas pricing and on many other things having to do with the energy area, trying to get action, difficult though it is to do so.

But at any rate, a general policy thrust of looking around and seeing what can we do to increase supplies, particularly in areas where we have shortages.

We have a program for tax change. It's not a gigantic program. We don't think the tax system is that -- needs the kind of reform that's been proposed by many, but some reform is important and necessary. We've proposed that. And we proposed an interesting program of simplification. There've been hearings on that. The Ways and Means Committee will come back to it. And so that policy thrust is underway.

There's a pension bill that I hope everybody's paying close attention to. It's a subject of extraordinary importance, terribly complicated and detailed. And we had the picture of the Senate voting on this bill, with a bill before them that was full of errors. Our people found over a hundred technical errors in the bill they were voting on; not a policy problem or anything, just technical mistakes. And as you all know, in this area, little technical errors can cause gigantic problems. So this is an area to watch very carefully. It has moved through the Senate. There are many things about it that the administration likes. We did make our own pension proposals, as you know. We did not get them accepted, but we got the notion of a lot of it accepted. We do have the termination insurance problem. And I think that's really something to scratch your head about. We have been opposed to it. And it's been interesting to me to see in recent days that the construction industry and unions have come on very strong in that regard, so maybe we'll get a little help from a few quarters in that field.

We have some proposals up on unemployment insurance, probably not liked very well by most of the people in this room. Nevertheless, I think the notion, myself, of improving the benefit levels in unemployment insurance, in generally seeking a kind of an income base system for looking at the problems people have through unemployment or whatever, is proper. And so, at any rate, there is a policy proposal there.

Sitting next to Ben Biagini (?), so how could I miss out on the rail area. Of course, that is a subject of great importance, great difficulty. We have been trying to keep before the country a reasonably market oriented private ownership type of solution to these problems. And we realize that our approach is kind of over on the right, so to speak. And we have not made much headway in getting it adopted. Nevertheless, I think the fact that we were there has helped shaped what seems to be coming along, and we feel we will be able to get some attention to the subject of deregulation, which I, at least, believe is important.

We've had an administration position on the minimum wage, which has been one for a moderate -- relative to most suggestions, moderate increases in the minimum wage, with restricted additions to coverage and with the youth differential. Now those are fighting words. So we've been willing to fight about it. The President fought about it last year; we fought about it again this year. The President's veto was sustained, as you know. And so at this point, to a certain extent we're in the driver's seat. That is, they've got to come to us if they want a bill. And that is the way we're playing it. And I hope that if we get a bill, we will be able to stick with the notion that at least we should have in it some sort of a youth differential. And we keep talking this up and pointing up the fact that with all of the talk about the unemploymen problem in this country, it's mostly a youth unemployment problem right now. It's where most of the unemployment is. These are very high rates. And the youth differential won't solve the problem, but it'll make a contribution. And we have to start thinking of ways to get at that problem other than just pump up the economy to inflationary levels.

We have a very controversial program out on the reform of financial institutions that Bill Simon, God bless him, is in charge of for the administration. And he's already got scars all over him. But nevertheless, it's an effort to move the system of financial institutions into what we think is a more sensible, more market based, so to speak, arrangement -- and have benefitted, of course, greatly from the Hunt Commission Reports. We've working on the problems of the financial system more generally, and we hope to have some proposals in another month or so to put forward that will include some of the international dimensions, in which we think we have done some things in government, particularly the interest equalization tax and the various capital controls programs, that penalize our financial institutions in competition with financial institutions abroad. And we've sort of said to ourselves let's look at this as an industry. We want this industry to flourish. We want it to have a fair crack at the jobs and the business, and what can we get out of the picture that government is doing that will help.

We have had a very strong trade bill proposal that the President has put up. The Ways and Means Committee has worked that through. You have Al Ullman on your program tomorrow, and he has picked up when Wilbur Mills was laid up, and he's done a great job on this bill. And we have our troubles with it in certain respects. But on the whole, we think it is a good bill. The major exception is in the MFN issue, with trade with the Soviet Union, and particularly the prospect, a threat, that the subject of credits will be hooked onto the MFN issue. And if that happens, that will, of course, just cut like with a knife our ability to work on economic relationships with the Soviet Union. And the President feels that this is a very important dimension of the effort to develop a sense of detente.

Now, it has been an interesting thing and, to many of us, a rather distressing thing to see the way in which attitudes have been moving on this subject, and the Mideast war puts the whole thing in a very delicate state. But I presume that most people would rather see economic competition and competition of ideas, and so on, rather than the tensions of the Cold War and the threat constantly there of something more difficult. And yet it seems as though we are so imbued with the ideas and assumptions and the rhetoric of the Cold War that it's very difficult for us to have a sustained policy of detente. And I think probably the MFN issue -- that's what that's really all about underneath it all. So that represents a problem.

But at any rate, the point I wanted to make is the trade bill proposals of the President have been, on the whole, treated well by the Ways and Means Committee, and Al Ullman, as the acting chairman, will probably be moving that bill within a couple of weeks.

We have, as you know, monetary negotiations going on, and I'll be glad to respond to questions on that. We have trade negotiations going on. We have just put out, and I hope this again is something that your people will take a good look at -- I think it's a very constructive thing. For the first time in decades, an administration has been able to get together between the Justice Department and the Commerce Department a broad proposal for patent law reform. We think it has been long overdue. I don't pretend to be an expert on this subject, by a long shot, but the work that's been done by the Commerce attorneys and the Justice attorneys -- and it's been chaired by Ken Dam (?), who works for me, a brilliant lawyer -- knows this area well. And I think that a very good package has been put up by the President in that area.

Well, that is by way of kind of indicating the scope of what we're doing. And I think I want to make two side points, aside from calling your attention to these substantive issues. First of all, at least as we are trying to work at it, we are trying to weave a thread through these policy proposals of the market price as the central policy instrument and trying to return, as much as we can, to that philosophy and let it shine through in the various proposals that we are making. So that I think is an overall thrust that we are making.

The second point I hope comes through is this. There seems to be a tremendous amount of concern that somehow with all of the problems in Washington these days that the government ain't there any more. Nobody's doing anything. Now to some extent, I suppose if you could really have that, if we could just go out of business for a year, that would be the greatest thing that could happen. But we can't go out of business, because there's just too much there, and if everything just stops, that'll be even the most frustrating. So people have been concerned that nothing is going on, and I want to tell you that there're a lot of us working hard, and there's a lot going on. And of course, I have emphasized the economic policy side of it. If Jim Schlesinger were here talking about defense, or Henry Kissinger on foreign policy, or Mel Laird in the domestic area, why, I think the story would be more or less the same. So that I think I want to give a picture of a government in motion, working, and I hope at least reasonably responsive to the problems that you have, willing to listen and to work with you.

Now, let me just say a few words about your favorite subject and mine, Phase IV, and how to view this. I think we might say that there're been four objectives here, looking at the program. One is to spread the bulge. And a second one is to try to so conduct the program that you minimize the damage, be aware of the damage that's inherent in the program and try not to do too much damage -- damage control -- and to a certain extent to group those two objectives together so that the notion of spreading the bulge is not to suppress everything, but to let some things go and hold down other things, and let the things go where you think suppressing what's there would cause the most damage. And so that has been the strategy of Phase IV.

Third, to prevent a big surge of wage escalation that would get built into the system and raise us up to a higher plateau. And finally, to see what we can do to create a climate for decontrol. And I want to dwell on that a little bit.

But to go back to the wage picture, just one comment there. Our feeling is that, on the whole, things have gone pretty well in '73, at least in comparison with reasonable expectations, and the collective bargaining settlements have run a little bit less than in '72 on the whole so far. And basically, collective bargaining is locked up for this year and I would say, to a certain degree, on well into next year, because next year we have steel, can, aluminum. Those are the lead bargains. And while they're going to be some rough areas, I'm sure nevertheless in those industries with their interesting and novel approach, certainly there will not be strikes. And I think we have the prospect of seeing reasonable settlements.

I believe, interestingly enough, the wage escalation problem right now is primarily in the non-union sector, not the union sector. And what we see is our good old friend, supply and demand. And, yes, Virginia, we do have tight labor markets. And anybody who doesn't think so hasn't really examined the figures carefully. And we have the strong possibility that non-union rates will surge up at a greater rate of increase than the collectively bargained rates have been doing, and that this will be the trigger, of course, that the unions can't stand, and they will come back on strong to move their rates up faster too. It's a rather interesting thing. It's something that I see Milton here pointed out way back in the immediate post World War II era, that with union contracts on fixed term, you often get the prospect of an inflationary period of non-union rates going up faster. And then, of course, it comes right behind and whacks you on the back of the head.

So I think that, from the standpoint of the wage control side of this, is the major problem right at the moment.

Now on the business of a climate for decontrol. Here I want to just develop a little bit the point I started out with on politics and economics, and it's been a subject that I have been puzzling over really all my life, but particularly since I have been in Washington. And I'm sure there are times when, as people oriented to the economics of problems and what we think of as the substance, we become too impatient and too unaware of the political dimensions. When I say "political, I don't mean Republicans and Democrats at all. I mean the ability to generate support for the policies which obviously you have to have. Otherwise, they're not going to stand up. So I'm sure there're times when we're too unaware of that, and there're times when we're perhaps overly concerned with what the political side of it is.

But I think on the problem of decontrol that essentially that's the problem. That is, I would start a discussion of this subject by stipulating that controls are bad. So let's not argue about whether they're good or bad, whether it would be desirable to get rid of them or not. It would be. Now the question is how do you do that? And how do you so manage Phase IV -- this is what it comes down to -- that you create a climate where you can do it?

Now, I think that we have made a lot of progress. One of my most traumatic moments on this subject was right here in this room where there was a practically unanimous vote for wage and price controls about two years or so ago. And I'm delighted to hear everybody getting up and storming against them now. So I think that's progress. That's good. And there is emerging a better climate on this subject and better support.

I'll just read a paragraph in a little report I'm sending in to the President on this subject. "Fifty-one percent of the American public wanted a return to a freeze in June of this year" -- this is on this poll business -- "up from forty-three percent in February. Shortly after the freeze was announced, fifty-nine percent favored the action. In mid July, seventy-six percent preferred a rollback and freeze of food prices, and seventy-four percent wanted the same in petroleum." "Let's not have frozen prices at the pump. Cut 'em back ten cents a gallon." That's what everybody wanted. "Vote for it."

"By late August, however, only thirty-three percent of the American public favored returning to a freeze."

Now God bless that farmer that drowned those chicks on television and some of these other things that happened. Frankly, I don't think we're there yet, however. I don't think people have quite got the message yet. I don't even think this group has got the message yet. I've tried out a few of you on for size who say we should decontrol everything. I say, "Do you want to decontrol construction wages too?" "Oh, no, that's too much. We don't want to do that. That's too far." So I think you've got to suffer a little longer in order for this message to sink in and to stay with you. Because what is going to happen when these controls come off? How many people in the room here will have higher prices within three weeks? Raise your hands. Come on. Come on. Come on. All right. So most people will. Now what is going to happen as a result of that? If that sort of sweeps through, particularly big business, what's going to be the political reaction? The political reaction's going to be, with the profit levels we heard about, that, all right, it looks like the only thing to do is to get back to tough controls.

So the President's got to be in a position to ride through that period, like we rode through some of the midsummer problems with respect to food prices. And he's prepared to ride. After all, he was the last man to favor putting the wage and price controls on in the first place. And his basic view of the subject has never changed. But the surrounding political environment has swung, and it is now swinging in a way that is making it more possible to decontrol and have people accept the fact that, well, so prices are going to go up a little. And maybe some of the people that put 'em up will regret it, and they'll have to put them back down again. That's how life works. And somehow or other, this mystical law of supply and demand is the answer. I hope we can get to that point. I think that is the principal -- that is the way to look at it, I've become convinced, rather than to argue about whether or not controls do damage to this industry or that industry. We know they do. And anybody that tries to argue they don't is stupid. It's more a question of the climate and how do we create the right climate, economically and politically.

And I believe, as these figures that I read show, that we have made some headway. I don't say "we" the administration As a people, and going through these experiences and observing them, we have become aware of some of the problems that are created.

Well, I did filibuster, but not for the whole time. I guess there're about twenty minutes. And I'll be glad to get blasted by you, or respond to your questions, or whatever.

CHAIR: Glen.

Q: I'd like to just respond a minute to my friend George up there on the automobile position with respect to gasoline consumption and small cars...

SECRETARY SHULTZ: I thought that might get to you.

Q: Of course, I cannot speak for our industry, because it's so highly competitive, but I can speak for my own company. And we have reviewed with John Love our complete energy policy paper, and I think we referred it to you. So we've done a lot of work on gasoline consumption. And in terms of the energy problem that we face, we believe we have to have reduced gasoline consumption in this country. And there is before Congress a number of bills that would restrict horsepower, restrict size and restrict weight, and so on, which we are opposing, because the effectiveness of those bills would not take hold until the middle eighties, in view of the fact that we have a car market of a hundred million vehicles now in the country.

So we believe that the best way to restrict gasoline consumption is to permit the gasoline price to increase. This will have an immediate effect on gasoline consumption. And so we are recommending the complete decontrol of the oil industry and let gasoline prices [words inaudible]. We believe this is the most constructive program at this point.

SECRETARY SHULTZ: Well, you're probably right. You're undoubtedly right. Let me point out a couple of things, however, that shows the dilemma that's involved. In the last year, eighty percent of the rise in the wholesale price index is accounted by food and energy. And two-thirds of the rise in the consumer's price index is accounted for by food and energy.

Now, to a very considerable extent, food is decontrolled. I know there're some retail chains in the room, and you wouldn't agree with that. And you have taken an awful beating. But to a very considerable extent, the raw agricultural product area, and so on, that's decontrolled. And I read off some of the responses from that.

The energy area, of course, has had gigantic price increases. Now we heard of what's likely to happen to the price of crude. So these prices undoubtedly will go higher. But I think we're up against the proposition where we say most of the price increases comes from these areas. Now, there's a reason for that that you can understand easily in economics that says to you, well, that shows the prices should go up there, and, therefore, let's just decontrol those areas and solve the problem, just as you've suggested. But if we have no controls in the areas where the price increases are the largest, why in the world should we have all this red tape around everybody else's neck where the prices are not going up so fast.

So the pressure comes in the areas that, in a sense, are causing the most trouble and where you could do the most good by getting rid of them. On the other hand, if you just get rid of them there and penalize the rest of the economy, that's kind of a strange way to go.

So I guess what I'm getting around to saying is that with all of our efforts to find a way to work out of controls gradually and decontrol this industry and decontrol that industry, as has been recommended -- we're going to try to do that -- probably, in the end, the President's going to have to step out of the White House some day and blow a whistle and say it's all over. In other words, I think it's hard to decontrol the petroleum industry and leave everybody else alone. In a political sense, that would just be wild.

MAN: I'd decontrol everybody, George.

SECRETARY SHULTZ: You're going to have to wait a while. You have to make some more noise first.

CHAIR: Frank Milligan (?).

[Comment inaudible.]

CHAIR: Frank, do you want to move over to the mike, please. And the mike doesn't work?

SECRETARY SHULTZ: Here, try this one.

CHAIR: Yes, I think Jack's taking care of it.

SECRETARY SHULTZ: You look like you're going to make a speech, so come up here.

Q: No, no, not a bit. But I've written you in some generalities about copper and talked about, you know, the effect of much higher foreign prices and domestic prices. But we do have some very specific facts now. Whereas in '72 or '73, copper -- we had a net import into this country of about twenty-five thousand tons a month, this last two or three months we've had net exports of about ten thousand tons a month. That's a swing of thirty-five thousand tons a month, or some three hunred thousand tons a year of copper that's just not available to this country.

Now, the crunch isn't here right now, but it's going to be sometime this fall. And where you've got international commodities with this kind of pricing, there's got to be something done before long really.

SECRETARY SHULTZ: Well, I think that's right. And it's interesting to see what happens in this kind of a program and then go back and read books that people used to scoff at, like "Road to Serfdom," and things like that, and see how quickly a tough wage and price control system moves you into a basically autarchical frame of mind and situation, because the wage and price control answer to your problem is export controls. And we have been fighting, or I'll say

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I have been fighting that idea, and, at the same time, pointing out to people that to think that we can have domestic prices here, the world price here, and not expect to see those commodities going out is ridiculous. And don't go and berate the people who export and say they're unpatriotic or something: that just misses the point. So we have to face this problem, and I don't believe that export controls are really the way to face it, although I imagine there are many here who, in their industry -- I know there're some textile people here, for example, and they're just all over us for cotton export controls. And I think to a certain extent, they're almost planning on export controls to get the price down for them. But I hope -- I hope we're able to resist. The political pressure is very intense.

But I appreciate your comment, because it gave me a chance to express my views on another -- my prejudices on still another subject.

John.

Q: Just to add one word to that. Foreign price for a loan now is about sixty percent higher than it is in this country now. We're frozen at the lowest price we've had in about ten years, [words inaudible]. But the other point I'd like to make is that we're beginning now to see shortages involving a lot of areas. People are stopping making this product and making this one. And if we go too long on this, I think we're going to create some real serious imbalances, and I think the effects are going to be damn long-lasting...

SECRETARY SHULTZ: Howard Morgan was very careful to say it wasn't his forecast. It was the forecast of experts. And you know what the President said about economic experts the other day.

CHAIR: Reg Jones.

Q: George, I'd like to mention a word on the subject of pension termination insurance. I think we're all opposed to pension termination insurance, for the simple reason that the number of people that have been affected is an infinitesimal part of one percentage point, according to Treasury studies. But it's our considered opinion that the sense of Congress is such that they're going to demand some form of pension termination insurance.

In the Senate bill, as you all know, it's a per capita tax. Now, admittedly, it's a low amount per employee. But this is hardly insurance when whether or not you have a sound pension plan, whether or not you have funded your vested liabilities on a sound actuarial basis, you pay the same amount per employee as a fellow who's done damn little funding in the past.

Furthermore, we think this is just the nose of the camel under the tent and that while it might start out at a very low level, it will appreciate very sharply. So we've been working with a small group of companies and with the insurance industry to develop a sound private insurance approach. Today, six insurance companies and perhaps as many as ten will deliver to Capitol Hill a firm statement to the effect that they are willing to underwrite the private pension termination insurance plan that's been developed.

Now, most of the companies represented here, through their Washington representatives, are pushing a program under which we would suggest, or they would suggest, that the Treasury Department be allowed one year to study this proposition of pension termination insurance and that, in the meantime, the per capita tax be collected.

I'm sure that if we start the per capita tax, it's going to be an extremely difficult thing to ever repeal it. I would, therefore, hope that you might wish to take a look at this private pension plan, termination insurance plan, that has been developed and get your Washington representatives to talk to the people on the Hill about keeping this kind of a thing in the private enterprise system rather than having it become another government plan.

CHAIR: Thank you.

Bev Murphy, did you have a question?

[Comment inaudible.]

SECRETARY SHULTZ: The Russian demand from the '72 crops was on the order of twenty-four whatever it is -- billion tons or million tons. I lose track of how you count those things. And this year apparently it's going to be on the order of about fifteen and a half million. So it's a very sharply reduced demand and, as we understand it, based upon very much improved crops there.

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I think also that we are learning something about how to do business between market economies and non-market economies. That is, my own view of the so-called wheat deal runs something like this, and this is without respect to all of these questions that have been raised about who was notified of what and whether or not they should have done something, and so on. But basically the structure of the situation was, as I understand it, that there was a government to government agreement having to do with a certain amount that was, in the end, roughly, say, forty percent of the total amount that the Russians took. At the same time as this arrangement was made, in order to make it go, of course, all kinds of things had to be done that basically opened up our markets to them, such as persuade the Longshoremen to load the ships, and things like that, that they wouldn't do, which effectively closed our markets to the Russians.

So our markets became open. Then it turned out they wanted to purchase a lot more. So if you were operating in a market and you had basically the information that you were going to purchase a very large increment in that market, and you're the only person who knows that, it is not too difficult for you, I suppose -- and this is a novel situation -- to place a little here, and to place a little there, and to place a little here. And before you know it, you've got yours, and the market suddenly wakes up, and the price goes up. In other words, I think they did quite a skillful buying job just on their own.

Now, so our problem is, well, then, where do we go from here? And I know people will be investigating. Elmer Staats will be investigating who did wrong, and so forth, and that needs to go forward, all right. But I don't think that's the main message. The main message is: here is an example of the interaction between a market based economy and a non-market economy. And what can we learn from this about how to do business with each other? And I think there are two things so far that we have been working on that are basically helpful. We have discussed this problem frankly and fully and tried to impart a sense, well, you know, if this is what's going to happen, then it's not going to work out.

So we have to develop some ability to predict what your total demands are going to be. And we recognize how hard that is, because crop conditions are uncertain every year. But nevertheless, the process of information sharing and appraisal through time has got to be developed to a much

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higher level. And we have to be able to understand what reasonable expectations are, and these expectations have to be gotten into the public domain so that the market can assess them and the information is generally available.

And then, second, I think we have to have a better method, and we are gradually getting it in place. And I realize the dangers of this. But nevertheless, I think we need to have more information, and have it publicly available, about the volume of forward contracts, and have it available quickly. And the system that Secretary Dent put into place, and which will, by law, be taken over by the Agriculture Department in due course, is an effort to work at that. So I think, at least as I would look at it, the answer is fundamentally a marketplace type answer; namely, develop the information and get it public, and then let the market appraise. And that is fundamentally the way we're going to have to work at it. But we will, I think, have to think, as our trade with the Russians develops, more and more deeply about this question of the interrelation between their type of economy and our type of economy, because there are lots of questions, and interesting ones and worthwhile ones, on both the buying and the selling side.

CHAIR: Gentlemen, one more question.

Bill.

Q: Mr. Secretary, on working towards these controls, I think it's been mentioned several times that there would be an effort to decontrol sectors of the economy which were not creating the immediate impact of inflation, yet I'm not aware of any really moves to do that. Is there the likelihood that it would be wise to start soon this process of taking off controls progressively to, you know, get the ball rolling instead of waiting for an all or nothing proposition?

SECRETARY SHULTZ: We have thought so and as you know, included that idea in the original Phase IV announcement. And we have gotten some very interesting material including some from members of the audience here. I think John Harper [?] has given us some, his group. And Roger Blauhaus [?], and many others. And we have been trying to develop some criteria that we might put out that say, here's -- here's the way we intend to think about this subject, and then let information come in and see where we can get with the notion that the further along this road that can be gotten the less possible trauma there is in some floor sweeping decision. We have been backed up a little bit in this by the -- this ever present fantastic inter-connection between everything in the economy, and it is -- it is -- in a sense a great disservice has been done by our good friends in the Commerce Department in producing the SIC Code, and so forth, and making us think that they're really our industries, and -- and certain intellectual concepts like that. I was not -- don't take offense at that.

[Laughter].

Because -- because while there are industries and we know that, the interflow in our economy is so big that you touch something and you just effect things all over the place. And so, this has backed us up a little bit in our thinking. As you come up to a particular case that fact confronts you, but nevertheless we intend to try to move along in this direction, and we're -- we're trying hard to see how to do that, how to -- as the President said in his message -- how to work our way out and feel our way out of controls. That's that approach.

Well, that's my last opportunity to comment, but let me just conclude by saying that -- that you have given me the privilege of appearing here before this group a great many times now and I always consider it a great privilege and I always look forward to the questions and the interchanges, and I always learn a great deal from it. I have found that this is a group not only to come and meet with, but many of you served together with me on various committees, and one thing and another, some lasting, some ad hoc, and I appreciate that. I have never yet had the occasion when I called up somebody in this room and asked them to do something that they didn't do it, and so it's been a -- that's been great. And I hope that you feel also that you can always get ahold of me or Bill Simon, and if we can we'll try to make something happen. But we don't -- we don't always succeed, but we try to be action oriented, and at any rate, I just want to say how much I appreciate the change to be here, and have a continuing association with you.

Thank you.

CHAIR: Secretary Shultz, I think I can speak for this group in saying that we're very grateful to the fact that you're against controls, that you believe controls are wrong, and that maybe we'll -- we will seriously take to heart the fact that we in this room have to get more religion about how really bad they are.

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FOR IMMEDIATE RELEASE October 16, 1973

EMERGENCY LOAN GUARANTEE BOARD
APPROVES LOCKHEED BORROWING

The Emergency Loan Guarantee Board approved the request of Lockheed Aircraft Corporation and its lending banks for permission for the Company to borrow from the banks up to an additional $20 million, if required, under Government guarantee, during the period October 15, 1973 through November 5, 1973, which, when drawn down, will bring total permitted borrowings under Government guarantee up to $200 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.

Lockheed's request to borrow was necessitated by late developing uncertainties regarding the timing of cash receipts in some important programs. When, and if drawn down, Lockheed would use the Government guaranteed bank loans to meet its current cash requirements.

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EMBARGOED FOR RELEASE UNTIL
9:30 A.M. EDT TUESDAY, OCTOBER 16, 1973

TESTIMONY BY THE HONORABLE WILLIAM E. SIMON
DEPUTY SECRETARY OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON MANPOWER AND CIVIL SERVICE
OF THE
HOUSE COMMITTEE ON POST OFFICE AND CIVIL SERVICE
TUESDAY, OCTOBER 16, 1973

Mr. Chairman and Members of the Committee:

I very much appreciate the opportunity to present the views of the Treasury Department regarding its need for additional positions in grades 16, 17 and 18.

The observations recently made by Civil Service Commission Chairman Robert E. Hampton before this Subcommittee emphasize the critical need for additional supergrades for new or expanded programs throughout the Federal Government and cited only two instances involving the Treasury Department -- revenue sharing and economic stabilization. However, there are more, and this morning I would like to describe in more detail the needs of the Treasury Department. In order to understand these needs, I think it is important to realize the greatly expanded role of the Department, not only in terms of important new programs but significant expansion of existing programs. Further, I feel it is necessary to point out that despite this growth, Treasury has not been provided with an adequate increase in supergrade positions.

In 1963, Treasury's total number of quota supergrades was 301; today we have 302 quota supergrades despite the significant expansion of responsibilities, programs and workload. Aside from three non-quota supergrade positions of a technical nature, Treasury's only additional supergrades has been in limited areas dealing with the stabilization of the dollar and the Comptroller of the Currency, which are covered by non-appropriated funds. Further, the Internal Revenue Service has suffered a slight decrease in their number of supergrade positions. (See Table I, attached.)

Despite the fact that Treasury has not been able to increase its supergrade positions since 1963, the Department's overall growth has been substantial. The number of employees has increased over 20 percent, and workloads have grown much more rapidly. To cite a few examples, gross revenues collected increased 118 percent; the number of carriers and persons arriving from foreign countries and processed by Customs have increased 52 percent; the number of check claims cases and counterfeiting, check forgery and bond cases investigated and closed have increased over 123 percent; and the Bureau of the Mint's coin production increased 132 percent. Table II is a more complete listing of workload items. It is to the credit of dedicated management in the Treasury that these expanded workloads have been handled without a commensurate increase in personnel. The Department has always taken pride in its use of technological improvements to process large volumnes of work rapidly and to maintain a lean and viable staff, but there is now a critical need for more quality people.

Equally important to the workload expansion has been the new and expanded programs in recent years. Chairman Hampton has already noted the General Revenue Sharing Program and the Department's major role in the Economic Stabilization Program. In addition, however, Treasury has taken on the following new responsibilities in recent years: a major participation in the organized crime drive strike force programs involving several of our enforcement bureaus; the narcotics traffickers program in IRS; firearms controls and explosives controls; the protection of foreign dignitaries and foreign diplomatic missions and the greatly expanded protection of the President and Presidential candidates following the Warren Commission Report; the expanded supervision of exempt organizations by IRS; and the creation of the Office of Industrial Economics. Also, during this period the U.S. Customs Service was reorganized including the establishment of nine regions. Two new bureaus were established: The Bureau of Alcohol, Tobacco and Firearms and the Consolidated Federal Law Enforcement Training Center. In IRS several major service centers were established. Finally, the Secretary and his immediate staff have played an increasingly important role in developing new and improved policies and programs relating to economic, fiscal, monetary and enforcement matters.

Without additional supergrade positions, Treasury has been forced to meet these additional requirements within our existing resources. As such, we have had to consolidate some supergrade positions, downgrade other positions, most of which clearly still merit supergrade status, and reallocate supergrade positions among bureaus. Furthermore, in the past year we have had to implement a floating system of vacancies to maximize the utilization of slots as soon as they become vacant. Under this system, when a supergrade slot becomes vacant, we fill it wherever our need is most pressing, while at the same time recruiting to fill the vacant position. For instance, if a supergrade position in the Office of the Secretary becomes vacant and the Internal Revenue Service has an immediate pressing need, we would use the Office of the Secretary supergrade at the Internal Revenue Service. However, we would still recruit to fill the Office of the Secretary vacancy. We have received a number of compliments about this system. Unfortunately, however, it doesn't increase the number of supergrade slots. Therefore, we currently have Department-wide 16 supergrade vacancies but 24 authorizations to recruit to fill these requirements. In effect, we have authorized the filling of 8 more positions than we have vacant slots. While the recruitment process takes place, we are counting on a few

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additional vacancies to arise. If this should not happen, however, some of the "authorized" positions will have to be held in abeyance temporarily until a vacancy occurs. From this point on, unless we get additional supergrade positions, we will not be able to fulfill even a small portion of our justifiable supergrade needs.

To keep the Civil Service Commission apprised of our supergrade requirements, we have recently updated the list based on the requests of our various bureaus and offices. Even after careful scrutiny by our Office of Personnel against Civil Service Commission criteria, the list of justifiable, but unauthorized, supergrades now numbers over 100.

We have repeatedly sought additional quota supergrade positions from the Civil Service Commission. Although we believe Chairman Hampton is sympathetic with our needs, he simply has been unable to provide us any relief beyond allowing us to retain the approximate number of supergrade slots which have been allocated to the Department in recent years. As he noted in his own testimony, the number of legitimate requests from the various agencies of government are significantly greater than the positions he has to allocate.

Not only has the Treasury not been granted a sufficient increase in quota supergrades, but also the Department has not received a sufficient number of non-quota supergrades. For a long time the Department has been hampered because we are so dependent on the scarce quota positions whereas other departments, some of which are much smaller, have available various non-quota and special authorizations. One basic reason for this is that the law provides for unlimited number of supergrades in the engineering and scientific fields. The reason for this is that these areas have been considered highly professional and hard to fill fields. Since the Treasury does not employ many scientists or engineers, the Department has not been able to secure many of these supergrades. We feel, however, that many of our professional experts in the highly technical monetary, tax, and economic fields are just as professional, and their skills are just as important and difficult to find. Therefore, we believe it is important for this Committee to give serious consideration to a broader interpretation of the non-quota positions which would allow Treasury to receive its fair share of these positions.

I have been at the Treasury for almost a year now, and I have been extremely impressed with the quality and dedication of the people in our Department. Many of these people have been fulfilling the responsibilities of a supergrade-level position without the rank which should go with it. They are certainly to be complimented for their devotion, but it will be increasingly more difficult to retain them. Further, it is vital that we continue to attract first-rate people. To

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do so, however, we must be able to offer them positions which are equivalent to the responsibilities they are asked to assume. The ad hoc shifting of positions which we have been forced to do in recent years not only poses a serious morale problem, but can't help but have an adverse effect on performance ultimately.

I believe that the Treasury's role is one of the most important in all of government. The Department serves as a prime revenue producer for the government and plays a central role in all areas affecting the economy. We need the highest quality people to run these crucial operations. As a minimum, we urgently request that this Subcommittee act favorably on H.R. 10419.

My staff and I will be glad to answer any questions you may have.

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TREASURY GENERAL SCHEDULE SUPERGRADES

	October 1, 1963	October 1, 1973
Office of the Secretary	38	39
Office of the General Counsel	10	11
Accounts	3	4
Alcohol, Tobacco and Firearms (Created 7/1/72)	-	8
Customs	16	20
Engraving and Printing	2	2
Internal Revenue Service and Chief Counsel, IRS	209	196
Mint	3	2
Public Debt	3	3
Savings Bonds Division	2	1
Consolidated Federal Law Enforcement Training Center (Created	-	2
Secret Service	7	11
Treasurer of the U.S.	3	3
Narcotics	5	- (No longer part of Treasury)
	301	302

Table I

Prepared by Office of Personnel (Employment)
10-12-73

Table II

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DEPARTMENT OF THE TREASURY
Workload
Fiscal Years 1963 and 1973

	1963	1973	% of In
reau of Accounts:			
Checks and Savings Bonds Issued	340,665,261	538,258,000	58.0
reau of Customs:			
Carriers and Persons Arriving From Foreign Countries	211,997,000	321,570,000	51.7
Total Customs Receipts (000's)	$1,721,505	$4,000,000	132.4
reau of the Mint:			
Coins Manufactured (000's)	3,626,574	8,409,000	131.9
reau of the Public Debt:			
Securities Issued	99,142,000	143,650,000	44.9
Securities Retired	96,782,000	129,400,000	33.7
ternal Revenue Service:			
Tax Returns Filed 1/	97,833,000	114,756,000	17.3
Individual Tax Refunds Scheduled	38,080,000	57,807,000	51.8
Assessments from Audit (000's)	$1,860,000	$2,761,000	48.4
Delinquent Accounts Collected (000's)	$1,093,000	$2,487,000	127.5
Gross Revenue Collections (000's)	$105,921,000	$231,369,000	118.4
easurer of the U.S.:			
Government Checks Paid (000's)	466,812	666,114	42.7
Check Claims Cases (000's)	310,768	689,200	121.8
cret Service:			
Counterfeiting, Check Forgery, Bond and Other Cases Investigated and Closed	71,969	158,400	120.1

/ Modest growth in number of tax returns does not tell the full story. Tax laws of 1969 and 1971 eliminated a substantial number of low income returns; the 1973 returns on balance are consequently more complex.

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THE DEPARTMENT OF THE TREASURY 1789

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FOR IMMEDIATE RELEASE October 16, 1973

REMARKS BY THE HONORABLE JACK F. BENNETT
DEPUTY UNDER SECRETARY OF THE TREASURY OF THE UNITED STATES
BEFORE THE
CONFERENCE ON THE BUSINESS OUTLOOK IN CANADA - 1974
OF THE
CONFERENCE BOARD IN CANADA
TORONTO, OCTOBER 11, 1973

"Towards International Monetary Reform"

Mr. Chairman:

After listening to three persuasive descriptions of the future this morning I feel I must enter into the spirit of the occasion by venturing at least some forecasts of my own. I'll put forward two:

-- firstly, that business in Canada in 1974 will not be significantly influenced by large changes in basic international monetary conditions during the year, and

-- secondly, that my assigned subject this morning, the international monetary system, won't even be on the agenda of your similar conference two years from now. The subject will by then have been relegated to that category which embraces systems, such as the municipal water works, whose working is important but which don't need to be talked about.

I'll admit that I have been tempted to omit even these two limited forecasts as I have reflected today on when it was that I last saw your President, Arthur Smith. At that time, when we were teaching assistants in the same money and banking course back in 1950, everyone was talking about a world-wide shortage of U.S. dollars and the yield on U.S. Treasury securities was a little over 2%.

Despite that personal reminder of the magnitude of financial change, I'll stick to my forecasts so long as I can make clear that in predicting no vast economic effects on Canada next year emanating from international monetary developments I am referring to basic conditions in the international monetary system, not to Canada's specific international financial relations. There are many others here, including in particular your next speaker, Governor Bouey, who are far better qualified than I on that subject.

My forecasts, that Canadian businessmen will not be faced with the necessity of operating in the midst of monetary turmoil and that international monetary experts will go out of style on conference platforms, are based on a number of considerations:

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-- first, the accumulated back-log of needed change in exchange rates built up over the years prior to mid-'71 has now been worked off;

-- secondly, the payments position of the country whose currency is still most widely used for international trade and investment transactions is clearly strengthening. This improvement results in good part from the shift in the U.S. trade balance, but the improvement has also resulted, in part, from a strong resumption in the flow of private investment funds to the U.S. We expect this investment flow to continue to grow, and the U.S. Government welcomes it, whether it be in portfolio form or in direct investment in U.S. operations. The improvement in the U.S. payments position will probably lead to some gradual appreciation of the exchange value of the dollar over the coming year, but this movement will likely be moderated as some foreign governments act to limit the corresponding depreciation of their currencies by gradually selling off a portion of their plentiful holdings of U.S. Treasury obligations;

-- A third reason for the forecasts is that there is now a clear consensus among major governments that they can usefully employ their large resources to intervene in foreign exchange markets, when necessary, to avoid disorderly conditions so long as they are careful not? to introduce unsustainable rigidity. The famous formula of last March's communique on the objective of stable but adjustable rates was neither --

at one extreme -- a detailed agreement, nor -- at the other extreme -- just a formula to mask disagreement. In my view it was a recognition that too great a rigidity was attempted in the part, with the result that the actual process of change was unnecessarily disruptive when it came. At the same time the formula was a recognition of the useful role governments can play if they don't over-play their hands. In the development of this consensus I suspect nothing was as persuasive as the example of Canada's success in maintaining orderly markets while displaying quiet persistence in avoiding premature rigidity. There have been times when Canada and the U.S. were in a rather lonely position in insisting that a country engaged in orderly floating should not be regarded as a social pariah. Yet I suspect the durability of the ultimate agreement on international monetary reform will owe much to the Canadian example, even though it is agreed that par values will provide the center of gravity of the reformed system.

-- Another reason for my forecasts is that I believe that finance ministers will meet the deadline they have set themselves for agreement by July 31 next year on all the basic elements of reform. Day before yesterday I returned from several weeks of foreign travelling with Secretary Shultz, who has spent well over half his time recently on his international responsibilities. It is my clear impression that he and his counterparts in other countries believe that

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pursuit of a new international monetary agreement is a worthwhile effort, worth all the travelling, the consultation, and the negotiation being devoted to it. As I have listened to these ministers talk to each other, I have noticed their determination to prove by next July that they can accomplish what their deputies haven't been able to arrange. In his speech at Nairobi, Minister Turner expressed a general feeling when he spoke of "cautious optimism tinged with impatience".

-- A final reason for my forecasts is that I'm sure the ministers have no intention of implementing their agreement in a way which would cause drastic sudden changes in market conditions. After the agreement on the elements of reform next year, agreement will still need to be worked out on a new legal text, and then, thereafter, many months will probably be needed to complete ratification around the world. Meanwhile, however, I would expect nations to begin gradual introduction of aspects of the reform on ad hoc basis. In this connection it was widely noted at Nairobi that Minister Turner in his speech had already begun to turn his attention to the ways of gradual practical introduction of various aspects of reform.

From these remarks of mine you can gather that I feel there has been noteworthy progress toward reform since August of '71. Contrary to some gloom and doom press reports from Nairobi, I believe that official positions of various governments have been gradually converging over the past two years. But before we heap excessive praise on ourselves, I think it would be fair to recognize that even at the beginning of this period of concentration on international monetary affairs there were already many important areas of consensus. There was probably agreement from the start that the basic purposes of the whole exercise are:

-- avoidance of large and persistent imbalances which lead to unnecessarily large and jolting monetary changes which disrupt beneficial international trade and investment transactions, and

-- avoidance of governmental controls and impositions which also choke off such beneficial transactions.

There was probably general agreement, too, on some procedural features:

-- that it is appropriate for the international community to take note of the fact that the choice which an individual nation makes among alternative policies for achieving its economic goals can have significant effects also on other nations; even when such policies are described by their promoters as purely social or regional in intent.

-- that the international community should have the services of an independent and high-quality staff to provide analyses of the effects of national actions having important international monetary consequences;

-- that there should be an established forum where national representatives can meet, when necessary, to formulate recommendations for, and in extreme cases to bring collective economic pressures on, individual nations; and

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-- that there must be advance agreement on a set of guidelines indicating on a prima facie - but - to use another Turner word -- rebuttable basis what types of national action are internationally unacceptable unless justified by special circumstances.

Starting from these general points of agreement on objectives and procedures, I have observed the various official positions converging on what conditions must be met if a new agreement and its guidelines are to prove politically acceptable, so that they will be ratified, and politically workable, so that they will endure:

-- the new monetary guidelines must be set in a broader framework of economic rules which are seen to be fair to all nations;

-- if there is to be widespread acceptance of the guidelines, and widespread acceptance of decisions to over-ride or not to over-ride them in specific instances, then those decisions will have to be made by a body of high-level representatives clearly acting with the full knowledge and authority of their respective governments;

-- the guidelines must be sufficiently precise that when they are to be applied to a specific case it will not be necessary to develop the whole rationale from the ground up. Otherwise the people of the country concerned may feel that they are being "picked on" rather than being asked to live up to an agreed international standard of behavior;

-- yet the guidelines must not be more detailed than necessary and must not interfere unnecessarily in national decision-making; in other words, the guidelines must leave to national authorities the maximum of discretion in choosing the method of avoiding internationally damaging results so long as that objective is achieved; and

-- lastly, the guidelines must provide even-handed treatment of deficit and surplus countries in recognition that as much damage can be done by a country which holds the value of its currency too high through excessive borrowing and through controls on commodity imports and capital outflow as can be done by a country which holds the value of its currency too low through excessive reserve accumulation and through controls on commodity exports and capital inflow.

How to achieve these conditions is not agreed, but it is widely agreed that they must be achieved if any new agreement is not to run the risk of collapsing after a short life and severely setting back the prospects for continuing international economic cooperation. In particular it is not agreed how to achieve the necessary balance between presumption and discretion in application of the guidelines, but in the Treasury we have been pleased to see the increasing recognition of the relevance of disproportionate movements in nations' exchange reserves as a guide for maintaining international balance. We expect further convergence in thinking will result from the labors of four new working groups which were

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formed at Nairobi and instructed to report back before the next ministers' meeting in January.

There is no illusion, however, that agreement on guidelines, when it is reached, will insure stable international monetary arrangements unless governments begin to demonstrate more effectiveness in combatting inflation in the coming years than they have over the last few years. The problem is not just that with such high rates of inflation there are likely to be significant disproportions between the rates of price increase in different countries and consequent strains on the monetary system. In addition, the inequities and frustrations caused by inflation are likely in any country to undermine devotion to the orderly processes of international economic cooperation.

Fortunately, many governments around the world today seem to be displaying a new determination to master the basic sources of inflation. Budgetary restraint is now the order of the day in many countries including, as Al pointed out, the United States. Nonetheless, we have a long fight ahead of us, and the world has not yet been made safe for a new international monetary system. But we are moving in the right direction, and international monetary officials around the world seem determined that they will be ready with an agreement by the time economic and political conditions are ripe for it.

Those new working groups start work next week. In fact they are scheduled to meet on each of the three days of the rare three day weekend which was supposed to come at the end of next week in the U.S. The monetary officials are making progress but they have obviously failed miserably so far in achieving the important objective of fixed, free weekends with wider margins.

Thank you.

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ATTENTION: FINANCIAL EDITOR

FOR IMMEDIATE RELEASE October 16, 1973

SALE OF $2 BILLION APRIL TAX ANTICIPATION BILLS

The Treasury Department is selling $2 billion of tax anticipation bills which will mature in April 1974.

The bills will be auctioned on Thursday, October 25, for payment on Thursday, November 1. Commercial banks may make payment for their own and their customers' accepted tenders by crediting Treasury tax and loan accounts.

The bills will mature on April 19, 1974, but may be used at face value in payment of Federal income taxes due April 15, 1974.

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ATTENTION: FINANCIAL EDITOR

FOR IMMEDIATE RELEASE

October 16, 1973

TREASURY OFFERS $2 BILLION IN APRIL
TAX ANTICIPATION BILLS

The Treasury Department, by this public notice, invites tenders for $2,000,000,000, or thereabouts, of 169-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 November 1, 1973, and will mature April 19, 1974 (CUSIP No. 912793 UC8). They will be accepted at face value in payment of income taxes due on April 15, 1974, 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 April 15, 1974, 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 April 15, 1974 . 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 April 15, 1974, 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, Thursday, October 25, 1973 Tenders will not be received at the Treasury Department, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

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, Thursday, October 25, 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 November 1, 1973. Any qualified depositary will be permitted to make settlement by credit in its Treasury tax and loan account for Treasury bills allotted to it for itself and its customers.

Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder must include in his income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

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

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FOR IMMEDIATE RELEASE October 17,1973

OSWALD H. BROWNLEE NAMED
DEPUTY ASSISTANT SECRETARY
OF THE TREASURY FOR TAX POLICY

Secretary of the Treasury George P. Shultz today announced the appointment of Oswald H. Brownlee, professor of economics at the University of Minnesota since 1950, as Deputy Assistant Secretary of the Treasury for Tax Policy.

Mr. Brownlee, 56, replaces Martin J. Bailey, who has resigned to join the faculty of the Carnegie-Mellon University.

Mr. Brownlee has taught economics, finance, and public policy in the United States and abroad for more than thirty years. He also served during this time as an economist for the International Cooperation Administration in Chile (1956-57).

A graduate of Montana State College, from which he received his B.S. degree in 1939, Mr. Brownlee earned advanced degrees from the University of Wisconsin, receiving his M.S. degree in 1939, and his Ph.D. degree from Iowa State College (now University) in 1945. He was the recipient of a Farm Foundation fellowship in 1941-42, a Ford Foundation Faculty Research Fellowship in 1957-58, and a Visiting Scholar fellowship of the Comptroller of the Currency in 1965.

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Author of books, many articles, and studies on general economics, taxation, and finance, Mr. Brownlee is a leading contributor to these fields.

Mr. Brownlee, a native of Montana, is married to the former Lela McDonald.

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FOR RELEASE 6:30 P.M. October 17, 1973

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for $1.8 billion of 52-week Treasury bills to be dated October 23, 1973, and to mature October 22, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:

High	-	92.799	Equivalent annual rate 7.122%
Low	-	92.779	Equivalent annual rate 7.142%
Average	-	92.789	Equivalent annual rate 7.132% 1/

Tenders at the low price were allotted 92%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted
Boston	$ 25,970,000	$ 2,570,000
New York	3,285,370,000	1,463,605,000
Philadelphia	27,185,000	1,910,000
Cleveland	14,000,000	4,000,000
Richmond	21,930,000	3,130,000
Atlanta	15,870,000	2,870,000
Chicago	401,045,000	22,385,000
St. Louis	64,570,000	18,420,000
Minneapolis	28,040,000	1,040,000
Kansas City	12,870,000	5,370,000
Dallas	25,205,000	2,705,000
San Francisco	353,600,000	272,190,000
TOTALS	$4,275,655,000	$1,800,195,000 2/

1/ This is on a bank discount basis. The equivalent coupon issue yield is 7.65%.

2/ Includes $ 48,425,000 noncompetitive tenders accepted at the average price.

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

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FOR IMMEDIATE RELEASE October 17, 1973

UNITED STATES FORMALIZES NEW
PAR VALUE FOR DOLLAR

The United States announced today the completion of the technical requirements for establishing a new par value for the dollar in the International Monetary Fund. This action formally implements the 10 percent devaluation proposed on February 12, 1973, but has no significance for the rate at which the dollar trades in foreign exchange markets since the proposed devaluation was immediately reflected in exchange rates upon the February announcement.

The dollar's new par value is equal to 0.828948 Special Drawing Right and will become effective at 12:01 A.M., October 18, 1973. The par value of the dollar in terms of gold will change from $38 to $42.22 per fine troy ounce (0.0236842 of a fine troy ounce).

Secretary of the Treasury George P. Shultz proposed the change in a letter of October 15, 1973 (attached) to Managing Director H. Johannes Witteveen of the International Monetary Fund and the Fund announced its concurrence today.

The par value change was made after the enactment of authorizing legislation on September 21, 1973, and completion of Congressional action on October 13, 1973, on an appropriation to provide for maintenance of value of United States' subscriptions in the International Financial Institutions.

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

OCT 15 1973

Dear Mr. Witteveen:

On behalf of the United States, and as authorized and directed by Public Law 93-110, approved September 21, 1973, I hereby propose a change in the par value of the United States dollar from one thirty-eighth of a fine troy ounce of gold to 0.828948 Special Drawing Right or 0.0236842 of a fine troy ounce of gold to become effective at 12:01 A.M. on October 18, 1973.

This proposal is made pursuant to Article IV, Section 5, of the Fund Agreement.

Sincerely yours,

George P. Shultz

George P. Shultz

The Honorable
H. Johannes Witteveen
Managing Director
International Monetary Fund
Washington, D. C. 20431

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

4/9

FOR RELEASE ON DELIVERY

STATEMENT OF THE HONORABLE GEORGE P. SHULTZ
THE SECRETARY OF THE TREASURY
BEFORE THE COMMITTEE ON WAYS AND MEANS
OF THE HOUSE OF REPRESENTATIVES
ON EXTENSION OF THE DEBT LIMIT
THURSDAY, OCTOBER 18, 1973, AT 10:00 A.M.

Mr. Chairman, Members of the Committee:

The temporary debt limit of $465 billion will expire on November 30 of this year. Without Congressional action, therefore, the debt limit reverts to its permanent level of $400 billion on December 1. As we pointed out in our last appearance before this Committee, and as Table I attached indicates, the actual debt is expected to exceed the present temporary limit late in November, assuming a normal cash balance. Consequently, action to provide a new debt ceiling is required before the final week of November if we are to avoid temporary retirement of debt and abnormal pressures on our cash balance at that time. A new temporary ceiling will, in any event, be necessary by November 30 if we are to maintain our expenditure and financing operations.

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In June, when looking forward to Fiscal 1974 as a whole, we proposed that the debt limit be raised to $485 billion. That request was based on projections of a unified budget deficit in FY 1973 of $17.8 billion and a unified deficit of $2.7 billion for FY 1974. We now know that the actual deficit for FY 1973 was $14.4 billion. We also know that, with our revenues increasing both as a result of real growth and inflation, we have a reasonable chance for a balanced unified budget for FY 1974 at a level of expenditure of about $270 billion. (Tables II and III describe the changes in receipts and outlays since our January and June estimates.) Based on this later data, and the assumption of a balanced budget, a debt limit of $480 billion should be adequate for Fiscal 1974.

In requesting that ceiling, I want to emphasize that a balanced budget is by no means assured. To achieve that goal, we will need to maintain both strong economic growth and the tightest kind of control on expenditures.

At this point, eight months before the end of a fiscal year, any expenditure and revenue forecasts must imply a range of possibilities about the projection. I am

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particularly concerned that, without the most vigilant effort, expenditures could exceed the projection. Already, as the Director of the Office of Management and Budget will explain in greater detail(and as shown on Table IV), certain Congressional appropriations in excess of the President's budget and higher interest costs for the debt have forced us to estimate expenditures for Fiscal 1974 more than $1 billion larger than our June projections.

I believe it is as evident to you as it is to me that strong pressures are evident for still greater spending. They should be resisted -- but they can successfully be resisted only by the strongest cooperative efforts of the Congress and the Administration. My sense of the Congress is that that objective is widely shared. In requesting a debt limit of $480 billion, I am counting on that effort and that cooperation in holding expenditures to the projected level and making the possibility of a balanced budget an operative reality.

As you know, changes in the public debt are related more directly to the Federal funds than the unified budget. Table V shows the relationship between these budgetary concepts. As indicated, the Federal funds budget -- which includes receipts and expenditures handled by the Government as "owner" -- is projected to be in deficit by some $15.1 billion, despite the fact that tax and other receipts from the public are projected to exceed payments to the public by about $6 billion. The Federal funds budget is in deficit because some $21 billion will be paid from the Federal funds budget in interest and other payments to the trust funds. As a result of these intra-governmental payments, the trust funds will, in turn, have a large surplus, offsetting the Federal funds deficit. Since this trust fund surplus is invested in Government securities, the public debt will rise, despite the balance in the unified budget.

Table I translates this outlook into projected levels of the debt month-by-month, assuming a $6 billion cash balance and a $3 billion margin for contingencies. The peak month-end figure is $478 billion. I would note that the month-end indebtedness is sometimes exceeded within a month, making the $480 billion request appropriate.

Such a debt limit will, in fact, provide a tight

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ceiling. Obviously, the dollar flows in a $270 billion budget are considerably larger than ever before -- double the total only nine years ago. An error of only one percent in estimates on either revenues or expenditures would amount to $2.7 billion. As indicated in Table VII, the assumption of a constant $6 billion cash balance and the traditional $3 billion margin for contingencies provides a margin for flexibility, in relative terms, little more than half of that provided in the early 1960's.

I would remind you, too, our forecasts depend to large measure on what the Congress actually votes to spend, as well as on the performance of the economy. The Congress has not yet completed final action on several appropriation bills, including the two largest -- Defense and HEW. There are a number of other bills which must yet be considered and could have a major impact on 1974 spending.

Finally, in managing the debt, we are inevitably subject to uncertainties arising from potentially sharp fluctuations in our cash needs stemming from sudden changes or disturbances in domestic or international markets. Fortunately, such contingencies seldom arise. But in looking many months ahead, we do need a reasonable margin for operating flexibility for handling such unexpected needs if they do arise -- even though the needs may be temporary and are not related to changes in the basic flow of receipts or expenditures.

While considering the debt limit, I also strongly urge the Committee to initiate the legislative action necessary to permit us to pay a fair competitive rate on U.S. Savings Bonds. Currently, that rate, under interpretation of the present statute, is limited to 5½ percent. Events of the past four months indicate the rate should now be raised. I believe experience also shows the potential value of permitting the Treasury scope for more flexible administration of the rate in the future.

As you know, Savings Bonds have been a cornerstone of our debt management policy. Some $60 billion are outstanding, 24 percent of the total debt in the hands of the general public.

In order to maintain that program, and to do so in a manner fair to literally tens of millions of payroll savers and other buyers, holders of Savings Bonds must be

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assured that they will receive over time a reasonable rate of return. In order to be effective, changes in rates must be reasonably flexible and responsive to rates on other forms of savings, both up and down.

Once again, we are faced with a situation in which Savings Bonds rates may seriously lag other savings rates. Redemptions have begun to exceed new sales. Without a fair rate, this experience will deteriorate further. The result would not only be more borrowing in other forms, which is today relatively expensive, but a setback to the momentum of the entire program and the image it holds in the public mind.

I believe the most straightforward approach for the Congress to this problem would be simply to remove the ceiling on savings bonds rates, to provide in this area the same flexibility that we have for marketable securities of equivalent maturity. The execution of debt management through the years by this and past Administrations provides the best possible assurance that this authority would be used responsibly and fairly, in the interests of an effective savings bonds program and millions of our citizens who have entrusted their savings to us.

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Attachments: Tables I through VII

TABLE I

PUBLIC DEBT SUBJECT TO LIMITATION
FISCAL YEAR 1974
Based on Estimated Budget Outlays of
$270 Billion and Receipts of $270 Billion
($ Billions)

	Operating Cash Balance	Public Debt Subject to Limitation	With $3 billion Margin for Contingencies
		ACTUAL	
1973			
June 30	$ 12.6	$ 459.1	
July 31	7.2	460.0	
Aug. 31	3.1	462.8	
Sept. 30	8.3	462.4	
		ESTIMATED	
Oct. 31	6.0	465	
Nov. 30	6.0	467	
Dec. 31	6.0	467	
1974			
Jan. 31	6.0	467	$ 470
Feb. 28	6.0	471	474
Mar. 31	6.0	473	476
Apr. 30	6.0	468	471
May 31	6.0	475	478
June 30	6.0	468	471

Office of the Fiscal Assistant Secretary — October 15, 1973

TABLE II

Comparison of Fiscal Year 1974 Receipts as Estimated in January 1973, May 1973, Mid-session Review, and Currently

($ billions)

	January 1973 budget	Change from January 1973 budget	May 1 1973 estimate	Change from May estimate	Mid-session review	Change from mid-session review	Current estimate
Individual income taxes	111.6	+3.7	115.3	+0.7	116.0	+1.0 2/	117.
Corporation income tax	37.0	+3.0	40.0	+1.5	41.5	+2.5	44.
Employment taxes & contributions.	67.9	--	67.9	+0.5	68.4	-0.5 3/	67.
Unemployment insurance	6.3	-0.1	6.2	--	6.2	--	6.
Contributions for other insurance and retirement	4.0	--	4.0	--	4.0	--	4.
Excise taxes	16.8	--	16.8	--	16.8	--	16.
Estate and gift taxes	5.0	+0.4	5.4	--	5.4	+0.4	5.
Customs duties	3.3	+0.2	3.5	--	3.5	--	3.
Miscellaneous receipts	4.1	-0.2	3.9	+0.3 1/	4.2	+0.6	4.
Total budget receipts	256.0	+7.0	263.0	+3.0	266.0	+4.0	270.

Underlying Income Assumptions - Calendar Year 1973

	January 1973 budget	May 1 1973 estimate	Mid-session review	Current estimate
GNP	1267	1283	1283	1288
Personal income	1018	1030	1030	1033
Corporate profits before tax ..	108	116	116	129

Office of the Secretary of the Treasury
Office of Tax Analysis

October 12, 1973

Note: Figures are rounded and may not necessarily add to totals.

1/ Includes +$0.2 billion for anticipated legislation required to write off liability carried on outstanding silver certificates.

2/ Includes +$0.3 billion for deferral to fiscal year 1975 of proposed legislation dealing with private school tuition credits and +$0.3 for substitution of pension reform legislation passed by the Senate for pension reform legislation proposed by the administration (primarily reflecting later effective dates).

3/ Consists of -$0.6 billion for dropping proposed legislation to increase taxes under the Railroad Retirement Tax Act and +$0.1 billion for enacted legislation to increase the social security tax base, effective January 1, 1974.

4/ These incomes reflect, in part, historical revisions reported by the Department of Commerce in July 1973 and, therefore, are not directly comparable with prior income assumptions.

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TABLE III

Fiscal Year 1974

Unified Budget Receipts

Outlays and Surplus or Deficit (-)

($ billions)

	January 1973 estimate	Change from January 1973 estimate	May 1 estimate	Change from May estimate	Mid-session review	Change from mid-session review	Current estimate
eipts	256.0	+7.0	263.0	+3.0	266.0	+4.0	270.0
lays	268.7	--	268.7	*	268.7	+1.3	270.0
icit (-) .	-12.7	+7.0	-5.7	+3.0	-2.7	+2.7	--

ice of the Secretary of the Treasury — **October 15, 1973**
ffice of Tax Analysis

e: Figures are rounded and may not necessarily add to totals.

s than $50 millon.

TABLE IV

		(Billions of dollars)
Fiscal year 1974 outlays:		
June 1 estimate		268.7
Completed congressional actions:		
Food stamp liberalization and repeal of wheat processing charges	1.1	
Veterans programs, including inactions on proposed savings	0.4	
Advance of Federal pay raise	0.3	
Social security and Medicaid benefits	0.2	
Other completed actions	0.4	
Subtotal, completed congressional actions		2.4
Other changes:		
Interest paid on the debt	1.5	
Interest received and other offsets (i.e., payments to government accounts)	-0.7	
Farm price supports	-1.0	
Medicaid cost increases	0.6	
Veterans readjustment benefits	0.4	
Federal employee retirement funds	0.3	
Federal Housing Administration fund	0.3	
Outer Continental Shelf rents and royalties (offset against outlays)	-2.3	
Other changes (net)	-0.2	
Subtotal, other changes		-1.1
Current estimate		270.0

TABLE V

CHANGE IN BUDGET RECEIPTS AND OUTLAYS, BY FUND GROUP
(fiscal years; in billions of dollars)

	1972 Actual	1973 Actual	1974 June estimate	1974 Current estimate	1974 Change
Receipts					
Federal funds	148.8	161.4	181.0	185.6	4.6
Trust funds	73.0	92.2	106.1	106.0	-.2
Intragovennmental transactions	-13.2	-21.3	-21.1	-21.6	-.5
Total	208.6	232.2	266.0	270.0	4.0
Outlays					
Federal funds	178.0	186.4	199.8	200.8	1.0
Trust funds	67.1	81.5	90.1	90.8	.7
Intragovernmental transactions	-13.2	-21.3	-21.1	-21.6	-.5
Total	231.9	246.5	268.7	270.0	1.2
Surplus or deficit (-)					
Federal funds	-29.1	-25.0	-18.8	-15.1	3.6
Trust funds	5.9	10.7	16.1	15.2	-.9
Total	-23.2	-14.3	- 2.7	*	2.7

*Less than $50 million.

Note: Detail may not add to totals because of rounding.

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October 18, 1973

TABLE VI

CHANGE IN BUDGET SURPLUS OR DEFICIT (-) BY FUND GROUP
(fiscal years; in billions of dollars)

	1972 Actual	1973 Actual	1974 June estimate	1974 Current estimate	Change
Federal funds:					
Transactions with the public..................	-16.2	-3.9	1.9	5.8	3.9
Transactions with trust funds.................	-12.9	-21.1	-20.7	-20.9	-.2
Total........................	-29.1	-25.0	-18.8	-15.1	3.6
Trust funds:					
Transactions with the public..................	-7.1	-10.4	-4.7	-5.8	-1.1
Transactions with Federal funds...............	12.9	21.1	20.7	20.9	.2
Total........................	5.9	10.7	16.1	15.2	-.9
Budget total:					
Federal funds.................................	-29.1	-25.0	-18.8	-15.1	3.6
Trust funds...................................	5.9	10.7	16.1	15.2	-.9
Total........................	-23.2	-14.3	- 2.7	*	2.7

*Less than $50 million.

Note: Detail may not add to totals because of rounding.

October 18, 1973

TABLE VII

TABLE VII

Relation of Margin for Contingencies to
Unified Budget Outlays, fiscal years
($ in billions)

Fiscal years	Outlays	$3.0 contingency margin as % outlays	Cash bal. in debt limit forecast	Est. Cash bal. plus margin for contingencies	Est. Cash bal. & contingency margin as % outlays
1962	$ 106.8	2.8%	$3.5	$6.5	6.1%
1963	111.3	2.7	4.0	7.0	6.3
1964	118.6	2.5	4.0	7.0	5.9
1965	118.4	2.5	4.0	7.0	5.9
1966	134.7	2.2	4.0	7.0	5.2
1967	158.3	1.9	4.0	7.0	4.4
1968	178.8	1.7	4.0	7.0	3.9
1969	184.5	1.6	4.0	7.0	3.8
1970	196.6	1.5	6.0	9.0	4.6
1971	211.4	1.4	6.0	9.0	4.3
1972	231.9	1.3	6.0	9.0	3.9
1973	246.6	1.2	6.0	9.0	3.7
1974e	270.0	1.1	6.0	9.0	3.3

Office of Secretary of the Treasury
Office of Debt Analysis

October 16, 1973

e = estimated.

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

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FOR IMMEDIATE RELEASE October 18, 1973

TREASURY ANNOUNCES IRON AND SPONGE IRON POWDERS FROM CANADA ARE BEING SOLD AT LESS THAN FAIR VALUE

Assistant Secretary of the Treasury Edward L. Morgan announced today that iron and sponge iron powders (excluding alloy powders) from Canada are being, or are likely to be, sold at less than fair value within the meaning of the Antidumping Act of 1921, as amended. Iron and sponge iron 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. Notice of the determination will be published in the Federal Register of October 19, 1973.

The case now will 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 iron and sponge iron powders from Canada which have not been appraised and on which dumping margins exist.

A notice of "Withholding of Appraisement" was issued on July 19, 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 period of January 1972 through March 1973, imports of iron and sponge iron powders (excluding alloy powders) were valued at approximately $5.7 million.

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Department of the TREASURY
OFFICE OF REVENUE SHARING
WASHINGTON, D.C. 20220
NEWS
TELEPHONE 634-5191

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FOR INFORMATION CALL (202) 634-5248

FOR RELEASE FRIDAY, OCTOBER 19, 1973, A.M.s

SPECIAL REVENUE SHARING
PAYMENTS TO BE MAILED TODAY

A special payment of first quarter fiscal year 1974 general revenue sharing funds will be made today to 3,501 governments whose reports on uses and planned uses of funds have been received since September 25. The Office of Revenue Sharing will mail $80,810,992 to the jurisdictions in question.

Some $38 million remains to be distributed to 5,755 governments who still have not filed the reports.

Funds for all recipients are held in a Revenue Sharing Trust Fund account until the reporting requirement has been met and checks can be mailed. Another special payment is planned for those governments whose reports are received by October 31.

"The reports are required in Section 121 of the State and Local Fiscal Assistance Act of 1972," according to Graham W. Watt, Director of the Treasury Department's Office of Revenue Sharing. "They include reports on actual uses of funds received through June 30, 1973 and plans for uses of funds distributed for the first six months of calendar year 1973 and all of fiscal year 1974," he explained.

Each report must be published locally in a newspaper of general circulation. Congress put the publication requirement in the law as a way to provide citizens with information and to encourage broader participation in decision-making regarding the uses of the funds by local and state governments.

The money being mailed today brings to approximately 32,000 the number of recipients who have gotten their payments for the first quarter of fiscal year 1974. The next quarterly payment will be made in the first week of January, 1974.

The total amount of general revenue sharing funds that have been distributed thus far is $10.33 billion. The State and Local Fiscal Assistance Act, signed by President Nixon on October 20, 1972, authorizes the distribution of $30.2 billion over a five-year period. Secretary of the Treasury George P. Shultz has put responsibility for the administration of the program

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into the Office of Revenue Sharing. Graham W. Watt was appointed Director of the revenue sharing program in February of this year.

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

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FOR IMMEDIATE RELEASE October 19,1973

MEADE WHITAKER SWORN IN BY
TREASURY SECRETARY GEORGE P. SHULTZ

Secretary of the Treasury George P. Shultz today administered the oath of office to Meade Whitaker to be Assistant General Counsel of the Treasury Department and Chief Counsel for the Internal Revenue Service.

Mr. Whitaker, a Birmingham tax lawyer, succeeds Lee H. Henkel, Jr., who resigned to return to the private practice of law.

A native of Washington, D.C., Mr. Whitaker, age 54, received his B.A. degree from Yale University in 1940, and his LL.B. degree from the University of Virginia in 1948. Mr. Whitaker has practiced law in Birmingham since 1948, with the exception of his service as Tax Legislative Counsel with the Department of the Treasury during 1969-70.

Mr. Whitaker, who has served as lecturer at numerous tax institutes and is the author of articles in tax periodicals, is a member of the Birmingham, Alabama and American Bar Associations, the American Judicature Society, the Tax Institute of America, and the American Law Institute. He is a member of the ABA's Section on Taxation, and served on its Council from 1961-64.

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

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FOR IMMEDIATE RELEASE October 31, 1973

TREASURY SECRETARY SHULTZ NAMES deBUTTS OF AT&T
1974 CHAIRMAN OF PAYROLL SAVINGS COMMITTEE

John D. deButts, Chairman of the Board and Chief Executive Officer, American Telephone and Telegraph Co., New York, is today appointed 1974 Chairman of the U. S. Industrial Payroll Savings Committee by Secretary of the Treasury George P. Shultz.

Since it was formed in late 1962, the Committee, composed of the chief executives of leading corporations, has sparked the sale of U. S. Savings Bonds through the Payroll Savings Plan.

Mr. deButts succeeds William M. Batten, Chairman of the Board, J. C. Penney Co., Inc. He will become the Committee's 12th Chairman at its annual meeting in Washington, January 9, 1974. Mr. deButts previously served on the Committee in 1964, and again in 1970 and 1971, as Chairman for the Telecommunications Industry.

In naming Mr. deButts, Secretary Shultz said -- "Your acceptance of this assignment assures a continuation of the outstanding leadership which has made the Committee a vital force in debt management and in promoting the stability of our economy and our country in a crucial period . . . More than $60 billion in Savings Bonds are now held by the American people. These savings are essential to the sound management of our national debt. The many pressures on the economy make it imperative that we sell more Savings Bonds in 1974."

The mission of the Committee is to stimulate the regular purchase of Series E Bonds by employees throughout the nation. Employers will be urged to sign up at least one of every two employees not taking part in the Payroll Savings Plan, and to obtain an increase in allotment from at least one of every two employees who are now enrolled in the Plan.

Mr. deButts was born in Greensboro, N. C., on April 10, 1915. He attended Virginia Military Institute, graduating in 1936 with a BS degree in Electrical Engineering. Immediately thereafter, he joined Chesapeake and Potomac Telephone Co. of Virginia as a Traffic Student in the Richmond office. He advanced steadily within the Bell System moving to parent AT&T in 1949 as an engineer in the Traffic Division, back to C&P in 1951 as General Traffic Manager, returning to AT&T in 1955 as Assistant Vice President, Revenue Requirements.

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After several years with AT&T subsidiaries, culminating with four years as President and Director of Illinois Bell Telephone Co., Mr. deButts returned to AT&T's New York headquarters on April 1, 1966, as Executive Vice President. On February 1, 1967, he was appointed Vice Chairman of the Board, and in April 1972, he assumed his present post.

His affiliations include -- Director, First National City Corp., Kraftco Corp.; Member, Board of Governors, United Way of America; Member, Business Council, Business Committee for the Arts, Armed Forces Communications and Electronics Association, Navy League of the United States, Northwestern University Associates, and National Conference of Christians and Jews. He has been named 1973 Corporate Man of the Year by B'nai B'rith.

He is married to the former Gertrude Walke. They have two daughters -- Talbot (Mrs. Tyler Cain), and Mary Linda (Mrs. R. Collins Couch).

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041
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FOR IMMEDIATE RELEASE October 19, 1973

COOMBS APPOINTED
TO TREASURY POSITION

Assistant Secretary of the Treasury for Enforcement, Tariff and Trade Affairs, and Operations Edward L. Morgan announced today the appointment of William E. Coombs of Sacramento, California, to a high-level position in his office to review and approve various rulings and regulations.

Mr. Coombs is a former State Senator of the State of California. He was elected to the California State Senate in 1966 from the 20th District. He served on numerous Senate standing committees and was Chairman of Public Health and Safety and Water Resources Committees.

Prior to his election, Mr. Coombs was a practicing attorney specializing in taxation, corporations and matters involving contractors and spent a year overseas as an auditor and business manager for Morrison Knudsen International. He taught taxation, mathematics and business law at Chico State College during the 1956-7 and 1957-8 school years, while writing Construction Accounting and Financial Management.

Mr. Coombs was born in Keosaugua, Iowa, on January 7, 1911. He was graduated with a B.A. degree in economics from UCLA in 1933 and has been a Certified Public Accountant, State of California, since 1944. Mr. Coombs also holds a Juris Doctor degree from Loyola University of California, 1954, and is a member of the Bar of the State of California.

Mr. Coombs is a member of the American Bar Association, the California Bar Association, the American Institute of Certified Public Accountants and the California Society of Certified Public Accountants and has authored articles published in The California Certified Public Accountant, 1950; Taxes, 1953; and Mechanical Contractor, 1965-1970.

Mr. Coombs and his wife, Katheryn, have two children.

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

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[FO]R RELEASE 6:30 P.M. October 19, 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 October 25, 1973, were [op]ened at the Federal Reserve Banks today. The details are as follows:

[RAN]GE OF ACCEPTED [CO]MPETITIVE BIDS:	13-week bills maturing January 24, 1974		:	26-week bills maturing April 25, 1974	
	Price	Equivalent annual rate	:	Price	Equivalent annual rate
High	98.251	6.919%	:	96.510	6.903%
Low	98.220	7.042%	:	96.461	7.000%
Average	98.241	6.959% 1/	:	96.486	6.951% 1/

Tenders at the low price for the 13-week bills were allotted 20%
Tenders at the low price for the 26-week bills were allotted 77%.

[TOT]AL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 20,665,000	$ 10,415,000	:	$ 15,060,000	$ 4,360,000
New York	2,914,850,000	2,050,090,000	:	2,508,555,000	1,599,905,000
Philadelphia	19,235,000	19,235,000	:	31,200,000	6,180,000
Cleveland	33,265,000	32,765,000	:	11,250,000	11,075,000
Richmond	11,160,000	11,160,000	:	9,290,000	8,320,000
Atlanta	22,065,000	19,775,000	:	18,520,000	12,210,000
Chicago	282,095,000	226,195,000	:	232,100,000	65,600,000
St. Louis	42,505,000	26,055,000	:	39,780,000	26,860,000
Minneapolis	15,010,000	14,850,000	:	11,875,000	11,875,000
Kansas City	39,010,000	30,630,000	:	23,695,000	13,055,000
Dallas	34,760,000	12,260,000	:	34,750,000	12,250,000
San Francisco	64,690,000	46,690,000	:	58,445,000	28,445,000
TOTALS	$3,499,310,000	$2,500,120,000 a/		$2,994,520,000	$1,800,135,000 b/

[a/] Includes $233,375,000 noncompetitive tenders accepted at the average price.
[b/] Includes $120,905,000 noncompetitive tenders accepted at the average price.
[1/] These rates are on a bank discount basis. The equivalent coupon issue yields are 7.18 % for the 13-week bills, and 7.30% for the 26-week bills.

Department of the TREASURY NEWS

SHINGTON, D.C. 20220 TELEPHONE WO4-2041

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FOR IMMEDIATE RELEASE

October 23, 1973

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $4,300,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing November 1, 1973, in the amount of $4,301,340,000 as follows:

91-day bills (to maturity date) to be issued November 1, 1973, in the amount of $2,500,000,000, or thereabouts, representing an additional amount of bills dated August 2, 1973, and to mature January 31, 1974 (CUSIP No. 912793 SW7) originally issued in the amount of $1,700,980,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,800,000,000, or thereabouts, to be dated November 1, 1973, and to mature May 2, 1974 (CUSIP No. 912793 TK2).

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, October 29, 1973. Tenders will not be received at the Treasury Department, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

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

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on **November 1, 1973**, in cash or other immediately available funds or in a like face amount of Treasury bills maturing **November 1, 1973.** Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder must include in his income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

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

Department of the TREASURY NEWS

SHINGTON, D.C. 20220 TELEPHONE WO4-2041

FOR IMMEDIATE RELEASE October 23, 1973

TREASURY STUDIES PROBLEMS OF CAPITAL MARKETS

Secretary of the Treasury George P. Shultz today issued the following statement:

The efficient and equitable functioning of the United States capital markets is of critical importance to the vitality of our economy. These markets serve as the means by which capital is raised, and they must operate at a maximum level of efficiency in order to meet these needs.

Events during the last decade have revealed significant defects in the operations of our capital markets. Public confidence has been shaken by the failure of many brokerage firms. Some of our institutions have been inadequately capitalized; others have not been able to cope with the rapid increase in trading volume; and all our capital markets have been affected by a complex system of regulation. Further, the steady growth of institutional trading in U.S. securities markets, together with changes in the pattern of consumer savings and investment, has resulted in a relative decline in individual participation in our securities markets. This increasing importance of the institutional investor has raised questions about the present regulatory framework for and the operation of our financial system.

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Further, the increasing demand for capital throughout the world, and the increasing importance of international flows of capital, make it imperative that the laws and regulations governing U.S. capital markets do not handicap U.S. institutions in competing for international business.

Today, there are a number of proposals being advocated by members of Congress, by various agencies as well as industry. The Treasury is also at work on this set of problems, under the Chairmanship of Secretary Shultz and the working supervision of Deputy Secretary Simon. Advice is being sought from officials in government as well as private industry and members of Congress. James H. Lorie, Professor of Business Administration at the University of Chicago, will serve as a consultant to the Treasury to help coordinate this effort. It is expected that this work will be completed before the end of this year.

This study will include both domestic and international ramifications of our securities markets. It will examine such areas as the organized exchanges, off-exchange trading, the effect of current market liquidity on corporate financing, the ability of the present market system to maintain a free flow of information concerning the volume and price of securities transactions, the ability to attract foreign capital, and the ability of all investors both large and small to have the opportunity to participate in such markets.

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Further, it will review various U.S. regulations and restrictions which distort competition in financial markets and restrict the international flow of capital.

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

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EMBARGOED FOR RELEASE UNTIL
10:30 A.M. EDT WEDNESDAY, OCTOBER 24, 1973

REMARKS BY THE HONORABLE WILLIAM E. SIMON
DEPUTY SECRETARY OF THE TREASURY
BEFORE THE
BUILDING PRODUCTS EXECUTIVES CONFERENCE
STATLER HILTON HOTEL
WASHINGTON, D.C., OCTOBER 24, 1973

I am delighted to have the opportunity to participate in this 34th Building Products Executives Conference. This morning, I would like to discuss with you our proposals for restructuring our financial system and how they should result in a larger and more consistent flow of funds into housing. In order to understand these proposals and the goals they are aimed at achieving, they should be seen as part of the overall economic policy we are pursuing. As such, I would like to briefly outline that policy and in so doing to emphasize the role which interest rates play in our economy and the effect which various economic conditions have on interest rates and the financial climate in general.

Economic Policy

Our economic goals are ambitious. We wish to see the economy grow as rapidly as possible and we wish to see the benefits of this improved economic well-being widely dispersed.

We wish to subdue inflation. We wish to have a strong competitive position internationally. To achieve these goals, it is critical that we have discipline -- the discipline of the market place, the self-discipline exercised by responsible business and labor leaders, and the discipline of appropriate government fiscal and monetary policies.

Over the past year, the economy moved very rapidly toward full utilization of its manpower and productive facilities. The pace of domestic economic expansion exceeded expectations and there were unusually large gains in production and employment. During the past year, our Gross National Product has risen 6.2 percent in real terms.

Our foreign trade deficit, which widened drastically to almost $7 billion last year, was cut to only $1-1/4 billion in the first half of 1973 and has been essentially in balance over the past few months. The expansion of our agricultural exports made a substantial contribution to this improvement; and all indications are that our industrial trade balance will follow suit.

Significant steps have been made toward reorienting international exchange market operations, and we are continuing this effort. Interim monetary arrangements, though they have some limitations, are working reasonably well. Negotiations on a more permanent system are well underway, and while the annual meeting of the International Monetary Fund in

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Nairobi left much work to be done, I am convinced that we are moving in the right direction to establish a new and more workable financial system for the world economic marketplace.

Despite these developments, however, one of our major problems remains largely unresolved. That is, of course, the problem of inflation. Price performance during 1973 to date was clearly unsatisfactory. Consumer prices jumped at a 9 percent annual rate in comparison with about a 4 percent annual rate during the last half of 1972. The GNP deflator climbed at nearly a 6-1/2 percent annual rate during the first half of 1973, in contrast to only 3 percent in the last half of 1972.

Increases in food and petroleum product prices alone, accounted for almost 70 percent of the rise in the consumer price index since the end of 1972. When food and petroleum products are excluded, the consumer price index rose at an annual rate of only 3.6 percent during the first 8 months of 1973, about the same as last year.

A number of factors combined to trigger this burst of inflation. Perhaps the single most important element over the past year has been the reduction in available supply of food because of bad weather and in some cases disasterously poor crops here and abroad. A second major element in the inflation problem is the world-wide economic boom. Every industrialized country has been simultaneously experiencing strong economic growth and this unusual development has put great pressure on the supplies and prices of industrial raw materials.

By late spring and early summer, as the inflation began to exceed our worst forecasts, it became clear that strong action was necessary. On June 13, the President reimposed a temporary price freeze, and on July 18, we announced the Phase IV controls.

Phase IV is a tough program, designed to distribute the expected bulge of post-freeze prices over a period of months. The guidelines have been made as flexible as possible to meet market and supply needs. It is for this reason that Phase IV has special rules for a number of individual sectors of the economy, including food, petroleum, health-care, lumber, and state and local governments.

At the same time, the President has acted to increase supplies. He has eliminated volumetric limits on imports and has restructured our oil import program. He has removed farmers' acreage set-aside requirements to boost farm production. He has either partially or totally removed non-fat dry milk, cheese, and meat import quotas.

We are also increasing market supplies of scarce metals and other commodities by selling surplus materials from the Federal Government's stockpiles. These sales, of course, are limited by the constraints of existing laws. Hopefully, the Congress will give us added authority, consistent with our defense requirements, to place more of these short-supply raw materials on the open market.

It is important to emphasize that the rise of prices in 1973 has been focused very heavily on food and raw industrial commodities, almost all of which are traded in international markets. It is also noteworthy that the 1973 acceleration of inflation has not extended to prices of services or to wages, both of which are moving at a moderate pace close to last year's performance.

In order for this good performance in our domestic markets to continue, it is crucial that we not allow the economy to run away with itself, and the primary responsibility lies with the Federal Government. As important as the stabilization program is to our battle against inflation, and as important as the supply actions are, the first line of defense is responsible fiscal and monetary policies for which we are responsible. There is no mystery about the correct direction for government policies during a period of inflationary pressure. Fiscal and monetary policies must work in tandem to exert a restraining influence on the economy.

Uncontrolled Federal spending must be checked. The Congress and the Executive Branch must cooperate closely in this important effort. It was through such an effort that we were successful in holding Federal spending below $250 billion during fiscal 1973. However, we must continue our rigorous efforts to keep Federal spending in check. If we can achieve a balanced budget this year, and if the Federal Reserve continues to pursue a policy of restraint in monetary policy, we can make great gains in our battle against inflation. Commodity inflation is reversible; at some point supply will catch up with demand and, when that happens, commodity prices will decline. If in the meantime we can prevent the rest of the economy from getting out of hand, we will have started back down the road to reasonable price stability.

Financial Conditions and Interest Rates

Nevertheless, beside the problem of rising prices, there is another aspect of the current economic climate that must be more widely understood; and that is the effect that inflation has on general financial conditions, on interest rates and on our financial institutions as they are presently structured.

First of all, I think it is important to realize that our financial institutions have been operating under a system that is outdated in many respects. Events during the last decade have revealed significant defects in our financial markets in general and our financial institutions in particular. The credit crunch of 1966, the monetary and gold crises of 1968, the severe squeeze of 1969-1970, as well as the interest rate crunch of 1973, illustrate that our system does not adjust well to short-term changes in economic and financial conditions.

Nevertheless, the pattern of financial reform in the past has been a series of ad hoc changes instead of meaningful, permanent reform. Recently, for instance, with interest rates rising, some people suggested that it would help the economy to directly control interest rates. Now, all of us will readily agree that moderation is required in interest rates, and that some self-discipline is required to achieve this. We want interest rates to stay at reasonable levels to encourage business investment and enhance economic growth.

But at the same time, we must recognize the special role interest rates play in regulating our economy. Credit is a crucial resource, because it is used by every sector of the economy. It is needed by every business to finance new plant and equipment, to finance the acquisition of inventories, and to provide working capital. But like all other resources, credit is a scarce commodity. When everybody wants more credit, there isn't enough to go around. Indeed, we would not want an unlimited supply of credit to be available, because an overabundance of credit will very quickly send the economy into inflationary orbit.

Accordingly, when the economy approaches its full potential, the demand for funds increases, and credit increases. When this happens, credit has to be rationed in some way. One method the free market uses to ration credit is to put a higher price on it -- that is, higher interest rates. Those higher rates act as a stabilizer, putting a damper on excessive spending.

Interest rate controls, on the other hand, far from helping the economy, actually distort it. All our experience demonstrates that. As you know, the Government attempted early this year to limit the rise in the "prime" lending rate of commercial banks. This was quickly followed by distortions in the credit markets. Many corporations turned away from their normal sources of short-term financing, which had become relatively high-cost sources, and applied to the banking system for artifically low-cost funds. Another result of the controls on the prime rate was that some corporations borrowed from one bank and used these funds to purchase higher-yielding certificates of deposit from another bank. In addition, smaller commercial banks loaned their available funds at high interest rates to the hard-pressed money center banks, instead of pursuing their basic responsibility of accommodating the legitimate credit requests from their local customers.

Another control device has been the interest ceilings placed on FHA and VA loans. These ceilings were an attempt to keep the cost of housing funds low but have failed, as evidenced by the widespread use of "points," and the move by the Federal National Mortgage Association to a "free market system" in 1968.

Still another control mechanism which has further distorted the economic picture has been the limitation on interest rates on consumer time and savings deposits. These restrictions were first imposed in the 1930's in the mistaken belief that excessive interest rates competition among financial institutions caused the bank failu[res] of the era. However, the principal effect of these controls has bee[n] to deprive small savers of a fair interest return on their savings deposits. Large savers have always had alternative means of placing their savings. As you know, the Government moved this year to mitigate this type of discrimination against small savers by raising the permissible interest rate limits on time and savings deposits at commercial banks and thrift institutions. At present, however, the maximum that commercial banks and savings and loan associations may pay on their passbook savings accounts is still only 5 percent and 5-1/4 percent, respectively. As a result, consumers are receiving 5 and 5-1/4 percent on their savings while consumer prices have been rising at an annual rate of 9 percent.

Recommended Reforms in Financial System

Recognizing the need to reduce such discrimination against small savers and consumer-borrowers as well as the distortions created by past control devices, the President recently recommended basic changes in our financial system. They are founded on the assumption that the public interest is better served by the free play of competitive forces than by the imposition of rigid and unnecessary regulation. If our proposed recommendations become law, it will be the first time in over 100 years that a major restructuring of the nation's financial system occured without an environment of crisis.

In order to appreciate the details of this reform, it is important to understand the goals underlying the proposals.

(1) The first goal of the President's recommendations is to create a more efficient financial system -- one that does not penalize the saver or the borrower and provides the highest rate of return on savings deposits while providing the lowest cost for all borrowing needs. Our banking laws must be modernized so that they allow banking and savings institutions to attract the greatest amount of savings and distribute those savings as loans or investments to the most effective uses. Each community's needs are different and priorities are constantly changing. The financial system and our financial institutions should be responsive to changing priorities within local communities and our recommendations are aimed at fostering this flexibility.

(2) A second goal is to have our financial system serve all the needs of the community. We must provide the finest mechanism for gathering savings and making loans as possible, but our financial system should not be designed around any one social objective and thus to the detriment of others. Social objectives change over the years and our financial system must be able to adapt to meet all the needs. Social priorities should be taken care of with tailor-made subsidies, which are aimed specifically at the problem to be addressed.

(3) A third goal of the President's recommendations is to create a financial system that not only serves the borrower but also the consumer-saver. Largely due to the effects of

the Depression, our present system was oriented towards the borrower. Banks and savings and loan associations were thought to be principally loan institutions and not savings entities. Our recommendations are aimed at changing this, and the consumer will be a principal beneficiary. He will benefit by being provided with greater financial services at lower costs. Consumer loans, automobile loans, educational loans, personal loans, and household loans and mortgage loans will be available from more institutions and the total cost of these services should be reduced. Equally important for consumers will be the ability to receive market or near market rates of return on their savings.

(4) A fourth goal is to reduce the dependence of the thrift institutions on the Federal Government by allowing each institution to structure its services so as to make the institution more stable and more financially sound. This increased financial stability, coupled with the greater involvement with commercial banks in housing finance, should greatly improve the flow of funds into housing.

(5) Not only are we striving to increase the absolute amount of funds for housing, but more importantly, a fifth goal of our recommendations is to provide a more stable and constant flow of funds into housing year-in and year-out. Many governmental agencies have been established solely for the purpose of providing a governmental support to the savings

industry and the housing industry. While these agencies will continue to assist these industries, the President's proposals are aimed at broadening the market for these industries by encouraging greater participation from the private sector to satisfy their needs.

(6) Finally, a sixth goal is <u>to preserve and strengthen our dual banking system</u>. We believe that the dual banking system has contributed a great deal to the efficient operation of financial markets by permitting competition among supervisory authorities as well as restraining such authorities from over-protecting existing firms by restricting entry into the field. Underlying our recommendations is a desire to maintain this competitive atmosphere as well as to encourage more progressive and innovative supervisory agencies.

With these general goals in mind, let us turn to the recommendations, which cover seven major areas and which may be highlighted as follows:

(1) Interest ceilings on time and savings accounts should be phased out over 5-1/2 years, while the prohibition against interest on demand deposits should remain.

(2) Deposit services provided by federally chartered thrift institutions and banks should be expanded. Federal thrift institutions should be permitted to extend N.O.W.-account, demand-account and

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credit-card services to all customers, and national banks should be able to provide corporate savings accounts and N.O.W. accounts to all customers.

(3) Lending and investment services provided by federal thrift institutions should be extended so that they may make real estate and construction loans on an expanded basis; so that they may make consumer loans; and so that they may acquire high grade corporate debt, all on a limited basis.

(4) Federal charters should be available for mutual savings banks and stock savings and loan associations. Making federal charters available to these institutions will enhance the dual banking system by providing them with a choice of supervisory authorities. Stock savings and loan associations have been operating in a more than satisfactory manner at the state level for a number of years and federal charters should be available to them as well.

(5) Credit unions should be provided with greater access to funds.

(6) FHA and VA interest ceilings should be removed.

(7) In order to achieve tax neutrality, the special tax provisions applicable to thrift institutions should be eliminated and a mortgage tax credit should be available to all lenders. The size of the credit has been calculated so as to give thrift institutions full compensation for the tax benefit they would have received in the aggregate 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 and to provide an incentive to other lenders to increase their level of investment in residential mortgages, the credit is multi-level. For institutions which have invested over 70 percent of their assets in residential mortgage loans, a tax credit equal to 3.5 percent of the residential mortgage interest income will be allowed. If less than 70 percent of the taxpayer's assets are invested in residential mortgages, the credit percentage will be reduced by 1/30 of one percentage point for each one percentage point below 70 percent. No credit will be available unless at least 10 percent of the taxpayer's assets are invested in residential mortgages. For example, institutions holding 55 percent of their assets in residential mortgages would receive a 3.0 percent

tax credit; a 40 percent institution would receive 2.5 percent; a 25 percent institution would receive 2.0 percent; and a 10 percent institution 1.5 percent. Individuals would receive a flat 1.5 percent.

The purpose of this credit is to ensure that a given investment or loan will be subject to the same income tax provisions regardless of the functional type of financial institution making the investment or loan. Further, by making the tax credit available to all taxpayers -- that is, commercial banks, insurance companies and individuals -- it will serve as an incentive to attract money into the mortgage market.

Analysis of the recommendations in their detailed form will show that competition and efficiency are to be achieved by placing deposit institutions on equal footing in three essential areas: (1) deposit powers; (2) asset powers; and (3) taxes.

We are not proposing to give additional non-financial powers to financial institutions. Rather, equal footing will be achieved by a significant expansion in the ability of thrift institutions to offer deposit, lending and investment services. Just as important is the removal of current biases in the tax treatment of major deposit institutions and the creation of tax neutrality so that institutions engaging in the same activities -- mortgage lending for example -- will compete on an equal basis.

It is also important to understand that the additional powers we are recommending are not going to be imposed on financial institutions. The institutions will have the flexibility to continue specialization if that is their desire and will have the capability to tailor their services to meet the specific needs of their communities. Restrictions that limit what a particular institution can or cannot do to serve its own local community reduces the availability of services and credit to the consumer.

Conclusion

In closing, I would re-emphasize that today we are faced with economic and monetary conditions that again raise serious questions about the viability of our financial institutions. Because of ever-increasing Government regulations, many of which had their origin in the 1930's, banks, and particularly savings and loan institutions, have come to rely excessively on the Federal Government to carry them through periods of monetary restraint. Additionally, consumer interests have been severely penalized. Consumer savers have not been allowed a fair return on their savings, and consumer borrowers have suffered through periods of credit unavailability.

Such problems cannot be resolved by piece-meal, interim changes in the financial system. We recognize that the demands for credit will be heavy in the years ahead, and what we need is a permanent system that will provide sufficient freedom in our financial markets to assure that the various institutions competing in those markets have the same powers and the same flexibility. Our recommendations will accomplish this, and what's as important, the result will be increased benefits to housing because all financial institutions will have greater incentives to invest in housing. We are not only concerned with the total number of houses built in a decade but also with the ability to generate a high level of housing starts on a more constant basis, year-in-year-out. Many people complain about the erratic nature of home building; about the accelerating boom and the devastating bust. However, the present financial system compounds the boom-bust cycle and leads to disorderly housing markets. The President's recommendations are aimed at providing a more constant flow of funds into housing by allowing housing finance to draw from a much larger pool of institutions.

Our efforts in the past to isolate housing from economic conditions have been accomplished by stop-and-go techniques. Controls, whether they be deposit interest rate controls or investment controls serve only to exacerbate the problem rather than to help it. We must return to the basics -- a free market system where all compete on more equal terms. For the housing industry particularly, this means allowing more institutions to be encouraged into the mortgage market and to strengthen the financial soundness of those that are already in it. We have the opportunity now to make a sound long-range decision that will benefit our whole economy.

Viewed in this way, our recommendations for changes in the structure of our financial institutions are essential. 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 shift between deposits and other assets as market rates fluctuate.

Coupled with sound fiscal and monetary policy, these changes will enable our institutions to operate normally through periods of economic change and help provide the proper foundation for stable economic growth.

Thank you.

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Department of the TREASURY NEWS

ASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR IMMEDIATE RELEASE October 24, 1973

TREASURY ANNOUNCES NOVEMBER REFINANCING

The Treasury announced today that it will auction to the public up to $1.5 billion of 2-year 1-1/2 month notes, up to $2.0 billion of 6-year notes and up to $300 million o 19-year 9-month 7-1/2% bonds to provide funds for refunding the $3.6 billion of publicly held bonds maturing on November 15. The coupon rates for the two issues of notes will b announced on Monday, October 29. The securities to be auctioned will be:

Treasury Notes of Series H-1975 dated November 15, 1973, due December 31, 1975 (CUSIP NO. 912827 DN9) with interest payable on June 30 and December 31, 1974, and June 30 and December 31, 1975,

Treasury Notes of Series C-1979 dated November 15, 1973, due November 15, 1979 (CUSIP NO. 912827 DP4) with interest payable on May 15 and November 15, and

an additional amount of the 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 bonds, which total $0.7 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 of Series C-1979 will be received up to 1:30 p.m., Eastern Standard time, Tuesday, October 30, 1973, and tenders for the notes of Series H-1975 and the bonds will be received up to 1:30 p.m., EST, Wednesday, October 31, 1973, at any Federal Reserve Bank or Branch, and at the Office of the Treasurer of the United States, Securities Division, 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 October 29 for the notes of Series C-1979, and October 30 for the notes of Series H-1975 and 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 99.51 for the notes of Series H-1975 and 98.51 for the notes of Series C-1979 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 for the issue.

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 for the bonds at a price less than 95.30 will not be accepted. Tenders at the highest prices will be accepted to the extent required to attain the

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amount offered. All accepted tenders for the bonds will be awarded at the price of the lowest accepted bid.

Fractions may not be used in tenders. The notation "TENDER FOR TREASURY NOTES SERIES (H-1975 or C-1979)" or "TENDER FOR TREASURY BONDS" should be printed at the bottom of the envelopes in which tenders are submitted.

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 each issue of 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, including accrued interest from August 15 to November 15, 1973, on the bonds ($18.75 per $1,000), must be completed on or before Thursday, November 15, 1973, at the Federal Reserve Bank or Branch or at the Office of the Treasurer of the United States in cash, 4-1/8% 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 Tuesday, November 13, 1973, provided the check is drawn on a bank in the Federal Reserve District of the bank or office to which the tender is submitted. Other checks will constitute payment only if they are fully and finally collected by the payment date Thursday, November 15, 1973. Checks not so collected will subject the investor 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 the closing hour for the receipt of tenders for each particular issue.

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Ownership of the November 15, 1973, Maturity
(In millions of dollars)

	4-1/8% Bond
Commercial banks	1,515
Mutual savings banks	37
Insurance companies:	
Life	17
Fire, casualty and marine	150
Total, insurance companies ..	167
Savings and loan associations	128
Corporations	1,074
State and local governments	357
All other private investors	370
Total, privately held	3,648
Federal Reserve Banks and Government Accounts	688
Total outstanding	4,336

Office of the Secretary of the Treasury
Office of Debt Analysis

October 24, 1973

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

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FOR IMMEDIATE RELEASE October 24, 1973

DIRECTOR OF THE SECRET SERVICE
JAMES J. ROWLEY RETIRES

Secretary of the Treasury George P. Shultz announced today with deepest regret the retirement of James J. Rowley, Director of the Secret Service, effective at the end of October. Mr. Rowley, 65, who has been Director of the Secret Service since September 1, 1961, is retiring after 35 years with the Secret Service.

Mr. Shultz said, "In a career that has included service under six Presidents, Jim Rowley has demonstrated exceptional professional competence, leadership, and outstanding public service to the United States. The Department of the Treasury and the Secret Service have benefited immeasurably from his twelve years as Director. I know that all those who have shared these years with him join me in expressing our highest regard and appreciation for his dedication, initiative and judgment in fulfilling the great responsibilities of his office."

Mr. Rowley began his Federal service in 1937 as a special agent with the FBI and joined the Secret Service the next year at the New York field office. In 1939 he came to Washington as part of the Presidential Protective Division and rose through the ranks to become head of the Division in 1947. He remained as Special Agent in charge of the presidential detail until his appointment as Director in 1961.

During Mr. Rowley's association with the Secret Service, he has served six Chief Executives -- Presidents Roosevelt, Truman, Eisenhower, Kennedy, Johnson and Nixon.

A member of the International Association of Chiefs of Police, Mr. Rowley has received numerous awards during his career, including the National Civil Service League Outstanding Federal Government Career Employee in 1963, the Treasury Department's Exceptional Service Award in 1968, and the President's Award for Distinguished Federal Civilian Service in 1968. He was also awarded the

Mr. Sam Award from the Touchdown Club of Washington in 1968. This award, named after the late Speaker of the House Sam Rayburn, is presented annually to a government figure who has fostered and contributed to sports.

Born October 14, 1908, in the Bronx, New York City, Mr. Rowley attended parochial schools, graduating from Fordham Evening High School. Soon after graduation he went to work as a bank investigator and them became an investigator for the New York State Banking Department. Continuing his studies at night, Mr. Rowley earned LL.B. and LL.M. degrees (1936) from St. John's University in Brooklyn.

Mr. Rowley's service on the White House Detail was marked by many historic events. During World War II he played a key role in protecting President Roosevelt while in residence, during extensive travels within the country and on the occasions of the President's trips abroad for conferences with allied leaders at Casablanca, Tunis, Cairo, Tehran and Yalta.

During President Truman's Administration he was in charge of the advance detail of agents which set up security for the President at the Potsdam Conference, and it was while he was in charge of the White House Detail in 1950 that the attempt on the life of President Truman by Oscar Collazo and Griselio Torresola was thwarted.

Following the election of President Eisenhower, Mr. Rowley was in charge of the detail which accompanied the President to Korea. During the Eisenhower Administration, he made many trips abroad to direct personally the planning of security of the Chief Executive during thousands of miles of travel to many countries.

During Mr. Rowley's twelve years as Director, the Secret Service was reorganized following the assassination of President John F. Kennedy and greatly expanded to handle its increased responsibilities, which now include, in addition to the protection of the President and Vice President, protection for visiting dignitaries and Presidential candidates. The Secret Service also investigates such criminal activities as counterfeiting and forgery of Government obligations. Mr. Rowley was

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also instrumental in the establishment of the Consolidated Federal Law Enforcement Training Center. During his tenure, the Executive Protective Service was established with its responsibility for physical security at the White House and foreign missions in the metropolitan area of Washington, D.C.

Mr. Rowley and his wife Mabel have three children and 5 grandchildren. The Rowleys reside in Rockville, Maryland.

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Department of the TREASURY
NEWS
OFFICE OF REVENUE SHARING
WASHINGTON, D.C. 20220
TELEPHONE 634-5191

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FOR INFORMATION CALL (202) 634-5248

FOR RELEASE FRIDAY, OCTOBER 26, 1973, A.M.s

REVENUE SHARING DATA TO UNDERGO REVIEW

Data used to allocate fiscal year 1974 revenue sharing money will be reviewed and improved by recipient governments beginning today. The Treasury Department's Office of Revenue Sharing is mailing each government its own data elements and complete descriptions of those elements today, together with an invitation to suggest improvements. Any proposed changes must be accompanied by supporting documentation and must be received at the Office of Revenue Sharing on or before November 26, 1973.

"We are required by law to use the 'most recent available' data for specified periods of time to make allocations of the money," Graham W. Watt, Director of the Office of Revenue Sharing said in announcing the program. "Section 109 of the State and Local Fiscal Assistance Act contains this provision.

We are anxious to have the help of the recipients themselves in making sure that we are using the best, most accurate numbers," he said.

The data to be considered were compiled by the U.S. Bureau of the Census and include the following:

...1970 population, from the 1970 decennial Census of Population and Housing,

...1969 per capita income, the mean or"average" income of all persons in a given unit of government as defined by the 1970 census,

...fiscal year 1972 adjusted taxes, the total amount of taxes, excluding taxes for education, that were collected by each unit of government, as derived from the 1972 Census of Governments,

...fiscal year 1972 intergovernmental transfers, the amounts received by a unit of government from other governments, as derived from the 1972 Census of Governments.

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The most advanced computer techniques are used to determine amounts of general revenue sharing money that are sent to more than 38,000 general purpose units of government.

"The data improvement process will improve the accuracy of the allocations. This will be reflected in fiscal year 1975 payment amounts," Watt explained.

The State and Local Fiscal Assistance Act signed by President Nixon in October of last year, authorizes the distribution of $30.2 billion in a five-year period. Thus far, $9.6 billion has been paid to states, counties, cities, towns, townships, Indian tribes and Alaskan native villages that are recipients of the money.

Secretary of the Treasury, George P.Shultz, established the Office of Revenue Sharing to administer the program shortly after the Act was signed.

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

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FOR IMMEDIATE RELEASE October 25, 1973

TREASURY ANNOUNCES ACTIONS ON TWO INVESTIGATIONS UNDER THE ANTIDUMPING ACT

Assistant Secretary of the Treasury Edward L. Morgan announced today two actions on investigations under the Antidumping Act of 1921, as amended.

In the first case there is a determination of sales at less than fair value, and in the second case there is a final discontinuance. Notices of these actions will appear in the Federal Register of October 26, 1973.

In the first case Assistant Secretary Morgan announced that racing plates (aluminum horseshoes) from Canada are being, or are likely to be, sold at less than fair value within the meaning of the Antidumping Act. The case now will 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 racing plates from Canada which have not been appraised and on which dumping margins exist. A notice of "Withholding of Appraisement" was issued on August 2, 1973, which stated that there was reasonable cause to believe or suspect that there were sales at less than fair value. During the period of January 1972 through May 1973, imports of racing plates (aluminum horseshoes) from Canada were valued at approximately $200,000.

In the second case, the Department announced a final discontinuance of the antidumping investigation on upholstery spring wire from Japan. On August 10, 1973, the Treasury published a tentative discontinuance notice after the investigation showed that sales had dropped off sharply in 1973, and the foreign manufacturers offered formal assurances that there would be no further sales to the United States. This notice

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also invited interested persons to submit written views or request an opportunity to present their views orally. No submissions or requests were received. During calendar year 1972, imports of upholstery spring wire from Japan were valued at approximately $6 million.

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

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ATTENTION: FINANCIAL EDITOR

FOR RELEASE 6:30 P.M. October 25, 1973

RESULTS OF TREASURY'S OFFER OF $2 BILLION OF APRIL TAX BILLS

The Treasury Department announced that the tenders for $2,000,000,000, or thereabouts, of 169-day Treasury Tax Anticipation bills to be dated November 1, 1973, and to mature April 19, 1974, which were offered on October 16, 1973, were opened at the Federal Reserve Banks today.

The details of this issue are as follows:

Total applied for - $4,708,985,000
Total accepted - $2,000,120,000 (includes $518,155,000 entered on a noncompetitive basis and accepted in full at the average price shown below)

Range of accepted competitive bids:

High	- 96.882	Equivalent rate of discount approx. 6.642% per annum
Low	- 96.787	Equivalent rate of discount approx. 6.844% per annum
Average	- 96.824	Equivalent rate of discount approx. 6.765% per annum 1/

(22% of the amount bid for at the low price was accepted)

Federal Reserve District	Total Applied For	Total Accepted
Boston	$ 315,390,000	$ 217,515,000
New York	2,022,645,000	244,565,000
Philadelphia	128,655,000	31,655,000
Cleveland	156,125,000	121,125,000
Richmond	47,425,000	27,925,000
Atlanta	57,840,000	47,190,000
Chicago	724,280,000	515,780,000
St. Louis	65,370,000	32,210,000
Minneapolis	624,365,000	460,265,000
Kansas City	233,005,000	227,005,000
Dallas	35,935,000	16,935,000
San Francisco	297,950,000	57,950,000
Total	$4,708,985,000	$2,000,120,000

1/This is on a bank discount basis. The equivalent coupon issue yield is 7.08%.

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

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FOR IMMEDIATE RELEASE October 29, 1973

WM. HOWARD BEASLEY TO LEAVE TREASURY POST

Secretary of the Treasury George P. Shultz today accepted "with deep personal regret" the resignation of Wm. Howard Beasley as Special Assistant to the Deputy Secretary. The resignation is effective October 31. At that time he will accept a position with the U.S. Senate.

Mr. Beasley's initial assignment at Treasury was in the Spring of 1971 when he served under Secretary John Connally and Deputy Secretary Charls Walker.

During his tenure at Treasury Mr. Beasley has been involved in such areas as the financial aspects of the guaranteed loan for Lockheed Aircraft Corporation, the Committee on Interest and Dividends, the President's Recommendations for Change in the Financial System, and the problems of the Penn Central Railroad. He also has had the responsibility for maintaining the Treasury's active role in the deposit program for minority banks and has been Treasury's liaison for problems of minority businessmen.

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

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STATEMENT OF
JACK F. BENNETT
DEPUTY UNDER SECRETARY OF THE TREASURY
BEFORE THE SUBCOMMITTEE ON INTERNATIONAL FINANCE
OF THE SENATE COMMITTEE ON BANKING, HOUSING AND
URBAN AFFAIRS
OCTOBER 29, 1973
10:00 A.M.

I welcome this opportunity to appear before your Committee to support proposed legislation which would permit the Export-Import Bank to continue effective assistance to U.S. exporters competing with government-supported foreign competitors.

Through such assistance the Bank can continue its important participation in the comprehensive program to regain a strong international economic position for the United States. Over the most recent several months the dollar has strengthened in the international exchange markets, foreign investment has begun to flow to the United States in increasing volume, and our trade balance has moved into surplus. Our efforts are beginning to pay off. But we have a long way to go. We cannot afford to relax at the first signs that we are moving in the right direction. Under the circumstances, from my vantage point in the Treasury I strongly urge your committee to give its endorsement to S. 1890.

This morning I have listened with great interest to your questions to Chairman Kearns. If there are any areas in which you feel I might be able usefully to supplement his knowledgeable responses I'll be happy to try.

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

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STATEMENT BY JOHN M. HENNESSY
ASSISTANT SECRETARY OF THE TREASURY FOR
INTERNATIONAL AFFAIRS
BEFORE THE SUBCOMMITTEE ON INTERNATIONAL
AFFAIRS
OF THE SENATE FINANCE COMMITTEE
Monday, October 29, 1973

Mr. Chairman, I appreciate the opportunity to be here today to discuss the international debts owed the United States and I welcome the interest shown by the committee in the subject. It is a matter of considerable importance, affecting our budget, our balance of payments, and our bilateral relations with other countries.

The collection of foreign debts has been of serious concern to the Executive Branch and over the past four years a vigorous effort has been undertaken to improve performance in this area. A particular effort has been directed towards improving the reporting and monitoring of all foreign debts, and towards collecting delinquent debts. The Treasury Department has recently completed a major expansion of its debt reporting system, including short-term credits and accounts receivable as well as long-term debts in its reports. The National Advisory Council now holds semiannual reviews of debt arrearage problems. And the Department of State has redoubled its coordination efforts with the various government agencies to ensure prompt payment of due debts. During the past three years, Treasury and State have appeared seven times before the different committees of the Congress to report on the result of the increased efforts to collect outstanding delinquent debts. Major progress has been made.

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The foreign debts owed the United States have all arisen from activities of the United States Government in the twentieth century. They are of two sorts - the debts which have arisen under Government activities during and since World War II, and the so-called World War I debts.

Post-World War II Debts

The Government has engaged in a number of foreign credit programs during and since World War II, as authorized by Congress. These programs have resulted in the extension of $54.5 billion of credit to foreigners. The most important of these programs have been (1) the Foreign Assistance and related Acts, under which about $16.2 billion has been loaned abroad, (2) the Agricultural Trade Development and Assistance Act, under which $8.9 billion has been extended, and (3) the Export-Import Bank Act, under which $18.3 billion has been loaned. (I will cover shortly credits extended under the authority of the Lend-Lease Act, which you have also asked us to comment on.)

At present we are owed a total of $33 billion in outstanding principal, $24 billion, or 73% of which is due from less developed countries (LDC's). The balance is owed by industrialized nations. In examining the geographical distribution of LDC debt, we find there is a large degree of concentration in the poorest countries, who have been the largest recipients of foreign assistance. India with $5.8 billion and Pakistan $2.2 billion account for nearly all of the debt in South Asia. Western Hemisphere countries owe us about $6.2 billion, with the largest debtors being Brazil ($1.7 billion), Chile ($0.9 billion) and Colombia ($0.8 billion); East Asia and Near East Countries owe $4.1 billion

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and $4.5 billion respectively, with the largest debtors in these regions being Indonesia and Korea (about $1 billion each) and Turkey ($1 billion)

Western European Countries owe U.S. a total of $6.3 billion with the United Kingdom accounting for $3.8 billion, nearly 60 percent of the Western European total.

Almost all of the vast sums loaned during and since World War II have been and are being repaid on schedule. Out of the total loaned since World War II, only about $662 million, or 1%, was in arrears as of June 30, 1973, the latest figures on total outstanding debt available. The largest portion of these arrearages, some $367 million, are from long-term loans owed by four countries -- Chile ($124.5 million), Egypt ($42.3 million), Cuba ($54.0 million) and Iran ($34.7 million).

Next in order of magnitude is the approximately $294 million that was in arrears on accounts receivable owed to various agencies as of June 30, 1973. By far the largest portion of these arrears, some $200 million, can be attributed to logistical support provided by the United States during the Korean conflict in the early 1950's. Another $25 million is in arrears on loans made under the Lend-Lease Act and other war account settlements. Twenty-three million is delinquent on Financing of Military Sales, and $21 million under Eximbank programs.

As I stated earlier, the Executive Branch has been and continues to be actively engaged in an effort to collect debts. Let me highlight the progress we have made in recent months. 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 $175 million obligation stemming from our post World War II economic assistance to that country. Another example is the assignment back to the United States of our original grant to the European Monetary Agreement. At the end of 1972, at the urging of the U.S. Government, the OECD terminated the EMA which had been in operation since 1958. The Treasury Department felt that the original purpose of the EMA had been substantially achieved and thus it should be terminated. After several years of discussions, the European members decided last December to terminate the Agreement and return to the United States its contribution and earnings thereon. As a result of the termination of the EMA, the United States received a total of $355 million, which represents the initial U.S. contributions of over $270 million and accumulated interest of $84 million.

Overall, since the late 1950's we have received prepayments from the Europeans on their post-World War II debts totaling $2.2 billion.

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 recently reached an agreement with Haiti for the repayment of a long-disputed 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 that was previously reported in arrears and the Dominican Republic has paid several million dollars and is now current.

Some recent progress has been made in Iran's lend-lease and surplus property debt. 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

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with regard to the status of some $12 million in delinquent interest, which are being worked upon.

Finally, after a five year hiatus, negotiations have begun with the Czechoslovak Government regarding their debt with reasonable expectations of solution.

In sum, progress is being made. And we are optimistic that many of the remaining delinquencies can be eliminated. For example, the changed situation in Chile has markedly improved prospects for repayment of that country's $134 million arrearage to the United States.

LDC Debt Burden

While collection experience on the post-World War II credits has been good, I would like to mention a potential problem, which we are beginning to encounter with increasing frequency and that is of mounting concern to the Treasury, namely, the very large and growing debt of less developed countries.

As of December 31, 1971, the last date for which composite data are available, the 81 developing countries had a total external public debt outstanding of $79.2 billion, of which $58.3 billion had been disbursed. In recent years, LDC debt levels have been growing very rapidly, more than doubling between 1965 and 1971; and increasing almost 15 percent between 1970 and 1971. This is a faster rate than that at which their exports have been growing and so there has been a marked deterioration in the debt service ratio, that is, their percentage of export receipts needed to amortize yearly debt service. About $24 billion or 30 percent of this debt of $79.2 billion is owed to the U.S.

Debt service payments totaled $8.1 billion in 1972 and are also growing rapidly, as grace periods on loans made in the early 1960's are running out. Consequently, a number of developing countries are likely to experience debt servicing difficulties in the future unless their trade balance improves and/or capital is made available in increasing amounts and on easier terms.

Because of our large financial interest in this matter, it is important that we avoid massive reschedulings or defaults in the future. At the same time we cannot stop selling goods and services to these countries, not only because they are essential for their economic development, but also because the United States needs these export markets. The need to tailor more closely the terms of export credits to ability to repay was the major motivation in the Executive Branch's support before the Congress and the Finance Committee of the proposed Export Development Credit Fund.

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Lend-Lease Debts

Credits extended under the authority of the Lend-Lease Act show a similar history of repayment combined with some remaining arrearages. Lend Lease was conceived and executed "to promote the Defense of the United States ... as provided for in the lend lease law." The program was inaugurated on March 11, 1941, as our peacetime contribution to nations aiding our defense by resisting axis aggression. After the United States was attacked, lend lease became an instrument by which we strengthened our allies according to the strategic plans of the allied nations as a whole. Unlike the method used to provide aid in the first World War, where the U.S. loaned its allies cash which they used to purchase goods and services, lend lease provided the goods and services directly. The Lend-Lease Act provided that the terms and conditions of repayment were to be those "which the President deems satisfactory" - a flexible method which was clearly established to reflect the extraordinary circumstances under which these agreements were made and the special situation they were designed to meet.

In settling the lend lease accounts with our World War II allies, the United States did not request compensation for lend lease goods lost, destroyed, or consumed during the war, nor for combat items such as tanks or aircraft in the custody of the armed forces of our allies at the end of the war. Payment was requested for the value of post-war civilian lend lease goods in the possession of other countries at V-J Day and for lend lease goods delivered after V-J Day. The general guidelines for credit settlements of the lend lease accounts were established by the National Advisory Council (Action No. 40, February 27, 1946).

The arrearages on our lend lease accounts totaled $92 million as of June 30, 1973. The bulk of this sum was owed by the Republic of China ($86 million).

Mr. Weintraub of State will provide details on lend lease settlements in his Statement, including that signed with the Soviet Union on October 18, 1972.

WORLD WAR I DEBTS

Finally, let me say a word about the so-called World War I debts.

During World War I, the United States made loans to its allies by purchasing short-term and demand obligations of the respective governments under the authority of the First, Second, and Victory Liberty Bonds Acts.

In 1921 and 1922 Europe was in a state of financial disorder. No debtor nation could have paid its debt to the United States had payment been demanded and many were unable to pay the interest that was due. Recognizing this predicament, Congress created the World War Foreign Debt Commission on February 9, 1922, to negotiate funding agreements with the debtor governments, under which their obligations would be refunded "in such form and on such terms, conditions, date or dates of maturity, and rate or rates of interest, and with such security, if any, as would be deemed for the best interest for the United States of America." However, the statute specifically stated that it did not authorize "cancellation of any part of the indebtedness except through payment thereof." By 1926, the Commission had negotiated settlement of the World War I debts of all foreign governments.

Payments on Allied debts were made according to schedule until 1931, when the world depression led to the suspension of payments. On June 20, 1931, President Hoover proposed, subject to Congressional approval, suspending during fiscal year 1932 all payments due the United States by the debtor government, provided a similar step was taken by European creditor governments regarding payments of inter-governmental debts and war reparations due them. On December 23, 1931, by Joint Resolution, Congress authorized the Secretary of the Treasury to conclude agreements for this moratorium proposal. This Act also expressly provided it to be against the policy of Congress that any indebtedness be cancelled or reduced. The amounts due in FY 1932 were to be repaid over a ten-year period beginning July 1, 1933, at an interest rate of 4 percent. All of the governments indebted to the United States, except Yugoslavia, accepted the proposal and agreements were concluded with each government in 1932.

After the moratorium expired Germany paid no further reparation, and all debtor governments except Finland then refused to make payments, or made only token payments.

In 1941 the United States notified most of the debtor nations that, in view of wartime conditions, we would discontinue our practice of sending them bills while at the same time we emphasized that this constituted no waiver on the part of the United States.

As of December 31, 1972, the outstanding World War I debt including unmatured principal and interest, totaled $24.9 billion, of which $20.2 billion was delinquent. The largest due and unpaid accounts are with the United Kingdom ($8.8 billion), France ($6.1 billion), Germany ($1.5 billion), and Italy ($1.4 billion).

While the countries which have large World War I obligations to us have never denied the juridical validity of their debts, they have linked payment to us to the condition of simultaneous payment of World War I reparations by Germany to them in amounts which roughly offset their war debts to the United States.

Resolution of the problem of governmental claims against Germany arising out of World War I was deferred "until a final general settlement of this matter" by the London Agreement on German external debts, to which the United States is a party, concluded in 1953. This agreement was ratified by the U.S. Senate and has the status of a treaty.

While the U.S. Government has never recognized that there was any legal connection between the World War I obligations owed us and the reparation claims on Germany, there is a linkage in reality, which makes the issue as such a sensitive political as well as an economic one.

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After recent testimony before the House Subcommittee on Foreign Operations and Government Information, it was agreed that the National Advisory Council would make a study and present concrete proposals on this debt. We expect to reach conclusions and make recommendations in the near future.

This, Mr. Chairman, concludes my prepared statement. I shall be glad to answer any questions you or members of the Subcommittee may have regarding international debts owed the United States.

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

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FOR IMMEDIATE RELEASE October 29, 1973

COUPON RATES OF 7% ANNOUNCED FOR NEW TREASURY NOTE ISSUES

The Treasury has set coupon rates of 7% for both the $2 billion of 6-year notes and the $1.5 billion of 25-1/2 month notes, the sale of which was announced on October 24. The series titles will be 7 percent Treasury Notes of Series C-1979 and 7 percent Treasury Notes of Series H-1975.

The notes of Series C-1979 will be auctioned on Tuesday, October 30, and the notes of Series H-1975 will be auctioned on Wednesday, October 31.

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

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REMARKS OF THE HONORABLE FREDERIC W. HICKMAN
ASSISTANT SECRETARY OF THE TREASURY FOR TAX POLICY
BEFORE THE WAYS AND MEANS COMMITTEE
CONCERNING PENSION LEGISLATION
OCTOBER 2, 1973

I do not have a formal written statement this morning. I had not anticipated that we would be asked to make a formal presentation. I said yesterday afternoon when the invitation came that I would be glad to appear, but that it would be necessary for me to speak from notes.

This area is an area in which reform is badly needed and long overdue. This Administration has pushed for reform in two Congresses in respect of those provisions which relate to the tax laws and in three Congresses in respect of those provisions which relate to the fiduciary and disclosure matters.

In broad outline, the bill, as it came to you from the Senate, conforms to the Administration's recommendations. We are pleased to see it and we can enthusiastically support the intent of most of it. We are pleased to see that it is moving along briskly in the legislative process.

We applaud the sincere efforts and hard labor of the many people in Congress in both the Labor and tax writing Committees who have spent so much time on this very complex matter. However, despite our pleasure in the fact that the bill is moving along with rapidity, we are very concerned about the literally hundreds of technical difficulties in the bill as it is presently drafted.

It is the best drafted and most comprehensive of those bills dealing with this subject presently available, but it is riddled with errors. That is not, I hasten to add, anyone's particular fault. It is the result of the fact that it moved through the Senate very quickly. The technicians concerned thought they knew what the Senate intended generally, but there was simply not sufficient time to work all of these technical problems out.

The Treasury had more than 100 technical corrections in the bill-- not things that went to substantive policies, but just things that went to clear up, for example, provisions that were contradictory and were never intended to be such. None of those got into the bill as it came to you from the Senate. We now need to digest the Senate bill, to hear from taxpayers, and to iron out the technical problems which we know are there and which we are sure the taxpayers will find when they try to apply the provisions of the bill to their own particular situation.

After all of the years of hard work which have culminated in this bill, we believe that it would be disastrous if the failure to spend a few extra weeks should result in legislation with defects which will plague us for years to come.

You have asked me today to give Treasury's position on the Senate bill, and I intend to do so in broad terms. We have had this 296-page bill, like the public, for a little over a week. We are not yet finished with our analysis of even some of the fundamental points in the bill, to say nothing of the so-called technical problems.

Thus, some of what I have to say today has to be tentative.

H.R. 2 as amended and H.R. 10489, bills introduced by members of the Labor Committee, we have not had an opportunity to analyze at all, although it does appear that H.R. 2 contains many elements of the earlier S. 4, reported by the Senate Labor Committee and ultimately melded into the present Senate bill.

The entire subject of pensions is inextricably intertwined with taxes. Our present system is shaped by provisons in the Internal Revenue Code which give and withhold tax benefits. Only a small part of the pension system exists outside of these detailed provisions of the Code. An expert staff has developed in the IRS to administer these provisions, and a very large corps--lawyers, accountants, actuaries--has grown up in the private sector to assist the public with the tax details of the present pension system. Virtually all of the provisions of the Senate bill deal in one way or another with tax provisions. Some of the provisions, such as those relating to fiduciary duties and to reporting and disclosure, lie primarily in nontax areas, within the jurisdiction of the Labor Department rather than the Treasury. Even there, however, tax aspects exist and must be dealt with.

We support the basic approach of retaining primary administration of the pension system in the Treasury and in retaining the jurisdiction and expertise of this Committee in the legislative process. At the same time, we recognize that there are certain aspects which are more fundamentally the concern of the Labor Department and we believe that cooperation between Treasury and Labor is both necessary and desirable to an effective overall system.

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Before I comment specifically on the substance of the bill, I would like to make a substantive comment of overriding importance.

In a voluntary system, excessive new requirements can produce fewer, rather than more, benefits. The pension system is voluntary. We have made it attractive by providing very substantial tax benefits.

We cannot and should not force people to grant pensions. We are in this bill proposing to add new requirements which must be met in order to qualify for the tax benefits. Many of these requirements will be expensive--in some cases, for some employers, onerous. Money which is spent in meeting these requirements will tend to result in lesser pension benefits than now exist or than would otherwise exist. If we go too far in striving to impose the perfect pension on everyone, the inevitable response will be the wholesale termination of plans, the reduction of benefits, and the drying up of new pension plans. A reasonable balance must be sought in order to avoid these counterproductive results.

It does not advance analysis in this area to say that more benefits are better than less. We all agree on that.

The two important questions are:

First, how much additional cost can we realistically expect employers to absorb without reducing benefits or discouraging the creation of new plans for the 50 percent of our work force which have no plans at all?

Second, how can those increased pension costs be most effectively spent? Where do we get the most mileage from the dollars that are spent?

If I may, before I move into the specific provisions of the bill, I should like for a moment to call your attention to several basic facts which I have here on the board and which need to be kept in mind as we deal with these plans.

<u>Charts--Relevant Data</u>

The first chart is a chart of historical data which shows over a period of 30 years, from 1943 to 1973, in the first column the increase in consumer prices, in the second column the increase in manufacturing weekly wages, and in the third column--just to bring it down to something close to home--the increase in Congressional salaries.

Chart 1
Historical Data

Year	Consumer Price Index	Manufacturing weekly wages	Congressional salaries
1943	100	$ 43	$10,000
1973	261	165	42,500
Rate of growth compounded ...	3%	4.6%	5%
Projected to 44-year career span (1987)	395	310	84,146

What the chart illustrates is that over extended periods of time there are very substantial dollar increases in compensation attributable to the general inflationary bias in the economy plus the increases in real wages that have occurred. When we begin to deal in terms of dollars that will relate to the pension that a man is to receive 44 years after he enters the work force at age 21, we must take into account that the dollar compensation that we are talking about now, if present trends continue, will be very much smaller than the dollar compensation on which he will be living at the time that pension becomes effective.

This basic consideration flows in and out of most of the technical problems we have in the bill. You will see in the Consumer Price Index, for example, that over a 30-year period we have gone from 100 to 261, which at a compound growth rate is roughly 3 percent. If we project that out another 44 years, so that we are talking about the normal career span of an employee, we get up to 395. Similarly, in the case of average weekly manufacturing wages, we have grown from $43 to $165 per week in that 30-year period, which is a compounded growth rate of approximately 4.6 percent. The present dollar amount will nearly double in the next 14 years.

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Roughly the same thing has happened in the case of Congressional salaries. They have gone from $10,000 in 1943 to $42,000 in 1973, which is a growth rate of 5 percent and is pretty much the same as the growth in the manufacturing weekly wages. You get a somewhat different number depending on what year you start, and this chart perhaps indicates a greater growth rate in Congressional salaries than you would get if you started somewhat earlier, because 1943 was the last year of a number of years at $10,000 and these Congressional salaries needed to catch up even at the beginning of this period in 1943.

In any event, the point is that if you had started out as a Congressman at age 21 in 1943 and you expected to stay until age 65--for a 44-year period--this normal growth would carry you from $10,000 to $84,000. If you were then putting limits on pensions, you would find it unrealistic to deal entirely with pensions that were geared to a $10,000 salary when you knew that you were going to end up with a much higher rate of pay than that, just by natural economic forces.

This second chart is a chart which is just mathematical.

Chart 2
Compounding Factors

Years	3 percent	5 percent
5	1.2	1.3
15	1.6	2.1
25	2.1	3.4
35	2.8	5.5
40	3.3	7.0
44	3.7	8.6

It illustrates compounding factors. It shows you how at these rates of interest a dollar will grow over this span of years. You will see that at a 3 percent rate an original dollar grows from $1.2 after the fifth year to $3.7--nearly four times--over a normal career span, just from the normal inflationary bias in the economy.

At a 5 percent interest rate, growth is much faster, from $1.3 after five years up to $8.6 after 44 years. So, if you are compounding at the rate of 5 percent over a 44-year span, you multiply the original dollar nearly nine times.

Chart 3 illustrates what that means when you translate it into terms of people who are entering the economy today.

Chart 3
Projected Annual Earnings
Starting Work at Age 21; $7,000 Pay

	With no increases in skill levels (5 percent)	With 3 percent increase in skill levels (8 percent)
At entry in 1973	$ 7,000	$ 7,000
After:		
10 years	11,402	15,112
20 years	18,574	32,626
30 years	30,256	70,440
44 years	59,905	206,896

If a worker comes into the economy at a wage rate of $7,000 in his first year and if we assume the 5 percent general increase in wage levels--that is a combination of the increase in real wages and inflation--that man can expect, if those rates continue, to go from $7,000 in 1973 to $59,905 when he is 65 years old.

I give you these figures because they are so astounding. Almost everybody has a first reaction that it is unrealistic to suppose that somebody who starts now at $7,000 will in 44 years be earning $59,000. But that is in fact what has happened and what we can realistically expect to continue to happen if our economy continues to operate in the future as in the past.

This kind of figure describes the situation of an individual only if his income rises in accordance with normal inflation (if normal inflation at this point is 3 percent) and with the growth of real wages. But the normal person is also increasing his skills. Hopefully, he will be worth more after 20 or 25 years than he was when he started out. So that you then have to add, for the normal individual, an increase in skills onto the increase that is produced by general economic factors.

We have assumed in the last column a 3 percent increase in skill levels. We got that figure not because there is any one true increase, but because it is the rate of increase which would occur today in the case of a professional who enters the civil service at the bottom of grade 7 and goes to the top of grade 15, which is not abnormal for somebody who is on the ball, so to speak, and would be the kind of progression which, at least in today's values, would be at least not an abnormal skill progression for people in that category.

If you add this compounding factor for somebody entering the working force in 1973, you find he ends up 44 years later with over $200,000. I know that is an astounding number, and we all think it is unrealistic, but we are looking ahead 44 years and that is a very long time during which these economic forces and percentages will be working.

Thus, as you consider this entire problem of pensions, you must keep in mind that the wage levels are rising and that you are planning ultimately for pensions that will be geared to what the man is earning at the time he retires, and you will only be fooling yourselves if you close your eyes to that fact.

Chart 4 illustrates another point which is important to keep in mind. It is that pension costs--the whole problem of vesting, portability, et cetera--are very much affected by so-called "turnover" rates.

Chart 4

Turnover is Typically Faster for Younger Workers

At this age:	This percent of workers might terminate employment each year
20	12.5%
25	11.3
30	9.0
35	5.4
40	2.5
45	1.2
50	0.5

Source: Medium Turnover Table, A. S. Hansen Company, Study of Pension Plans (1970).

I would say to you frankly that nobody has a very good turnover figure. There are no official statistics. This is a medium turnover rate by one of the leading actuarial firms in the country, the kind of thing they use for their planning as representative of a medium situation.

You will see, as you would expect, that the turnover rate is much greater among the younger employees than it is among employees who are older. The younger employees are coming in, taking temporary jobs, getting trained and doing things in their earlier years--things which they will go beyond in later years. They are experimenting in their youth and have less financial constraints to tie them down. All of this contributes to a turnover rate at age 20 of 12.5 percent, which goes down to 9 at age 30 and then drops off rather significantly.

In the young age groups there is a very substantial amount of churning, people coming on to jobs and leaving jobs. This is an annual rate, so that each year there is this kind of turnover in these age groups. You have an almost complete turnover in the span of a relatively few years. That basic fact comes into play as we talk about some of the vesting and portability rules that we have proposed and that have been modified by the Senate.

The Senate Bill

Let me now turn to the specific provisions of the Senate bill. I will give you our general comments on them. I will not try at this point to get into all of the technical details. I would say to you, however, that many of the things that are called "technical" are in fact very substantive in nature and may cost a given employer thousands or hundreds of thousands of dollars and have a very big effect on the operation of the system.

All of these things in the last analysis need to be carefully considered. The fact that I do not today spend time on them does not mean that they are not important. It just means that we can't cover everything today, and in many of the so-called technical areas we are not yet prepared to tell you how we think the system would best operate.

We would hope to make our views known from time to time as the subjects come up because, of course, it is important to be sure that these things really work.

Participation

The first part of the Senate bill deals with the subject of participation. This has to do with the point in time at which an employee belongs to the plan, and at which the clock begins to run on his benefits.

We do not, in general, take exception to the Senate rules. They are somewhat different from those that we propose. We feel that on balance they are acceptable, but I would caution you that, again, we are looking at an overall package which we must weigh in the balance.

It is very easy to take each of these components and say, "Well, that is just a tiny change and we don't really object to that particular tiny change." But when you add all of these things together in the scale--all of these tiny changes that one is tempted to make--you may find that you have made a very major change on balance, which may be a serious deterrent to new plans and to the expanded coverage of existing plans.

Vesting

Vesting is an area in which there has been a good deal of technical argument. We think the Senate bill goes a long way toward a better vesting rule.

There is at the present time no vesting rule of uniform application. What in fact happens is that the Internal Revenue Service in the various regions and districts around the country seems to have devised different vesting rules according to their regional notions of what is and is not fair. We think that is a very undesirable situation and that the rules should be uniform.

We do feel, however, that the Senate vesting rules, which are in total impact comparable to those which we proposed, are inefficient in the way in which they spend the increased pension costs. Vesting costs money. There is an employer cost to it. The question is: Where do you get the most mileage for the dollar of additional cost that you are imposing on the system? We believe that the rule of 50, which we proposed in our original bill, is a preferable vesting formula. We believe that it spends pension dollars more efficiently where they are needed most. It tends to create more pension dollars for those who are older--and one must remember that ultimately people do become older--and it helps those who change jobs. People who change jobs frequently leave behind them accrued pension benefits. That is what we are dealing with when we deal with vesting.

The Senate formula tends to give amounts which are individually not significant to a very large number of employees, at a time when they don't need it and won't use it for retirement.

The rule of 50, on the other hand, concentrates those same dollars of pension costs on older workers who are closer to retirement and who need it and will use it for their retirement. Since the younger workers eventually become older, they, too, will share in these benefits at a later point in time.

I will take you through a couple of charts that illustrate some of these basic points.

Chart 5 illustrates the kind of thing that happens under the Senate bill. It is, in part, a function of what I was showing to you earlier about the very large increase in dollar incomes between the time a man enters the work force and the time he leaves at age 65.

Chart 5

Senate Rule Often Vests Insignificant Benefits

Age at hire: 21 Age at termination	Years on job as percent of 44-yr. working life	Pension as percent of pension if worked to age 65	Lump-sum payment
31	23%	18/100 of 1%	$ 35.00
35	32	1.7	414.00
37	36	3.6	1,010.00

Assumes: Pay $7,000 at age 30
5 percent growth.

Plan: 1-1/2 percent high five pay per year of participation.

What we see here is that under the Senate rule, for example, if you have hired a man at age 21 and he terminates employment at age 31 he would have spent a total of 10 years on the job, which is 23 percent of his total working life. Yet, the pension in which he would be vested under the pension rule represents only 18/100 of 1 percent of the pension that he would have received if he had stayed with that employer to age 65. If the man leaves, even after a period as long as 10 years (but nonetheless 34 years from retirement) and he is working at the lower wage levels that relate to those earlier years, he is going to take away with him, no matter how you vest it, only a very small amount of money.

That 18/100 of 1 percent ends up as a lump-sum payment of $35. That is not even cigarette money. It will fund about a pack every week. So that realistically one cannot expect that kind of employee to leave the $35 on deposit with the employer, and you can't expect the employer to erect elaborate bookkeeping devices to keep track of it.

It is simply not a significant amount, partly because the employee's income levels in these early years are so much smaller than his income levels later in his career. Nonetheless, if you pay out $35 a year to all of those young people who are constantly turning over, as we saw back on chart 4, you are going to pay out a very large amount of money.

What you are doing is paying a large amount of money for benefits that are not significant to the people who get them, and which do not end up in the pension system in the end.

You see that the same thing occurs in attenuated form as you get out even to ages in the high thirties. At age 35 he has been on the job nearly a third of his working life and the pension that would be vested under the Senate rule is 1.7 percent of the pension that he would have if he worked to age 65. It is worth in lump sum $414. He would pay a tax on that when it was distributed. It is conceivable, I suppose, that a man who is 35 years old with a wife and children and installment payments and a house and groceries, et cetera, would in fact stow $414 less tax away for his retirement, but it is doubtful.

The same thing happens at age 37. He spent 36 percent of his working life but he still has a very small amount of the total pension he would have if he stayed. He comes out with a lump sum of $1,010, on which he would have to pay tax. In working these numbers out, we have assumed a generous pension plan, so that these numbers are on the high side of the range of what one might expect.

What you see happening here is that it is the later years of a pension system, as applied to a particular individual, which result in most of the pension that he is paid. That is because wage levels have risen for him so considerably during those later years. He needs to have a pension geared to the ultimate earnings that he has at the time of retirement. What happens at the earlier, the much lower, salary levels is really not very significant.

Chart 6 that I have illustrates that the rule of 50 assists those workers who change jobs.

Chart 6
Rule of 50 Assists Workers Who Change Jobs

Over career (age 21 to 65) employee works at each job:	Actual pension at age 65 as percent of pension earned without changing jobs: Senate rule	Rule of 50
4 years (11 jobs)	9.0%	22.5%
6 years (8 jobs)	15.8	30.0
10 years (5 jobs)	30.2	47.0
15 years (3 jobs)	62.7	60.1

Assumes: Pension benefit is 1-1/2 percent of final 5-year salary per year of participation.
5 percent annual salary growth.
6 percent interest.
Participation at minimum of age 30 or one year service.

Here again, we have tried to put these data in money terms. We have assumed four different situations. We have an employee who has worked four years at each job, so he has 11 jobs, and an employee who worked 10 years and has five jobs, and an employee who worked 15 years and has three jobs.

Obviously, people don't change on regular intervals of that sort, but it gives you an idea of how the numbers work out. The numbers in the columns would change somewhat, depending on the exact terms of jobs you use, but the general principle would be the same.

The chart shows the percentage of the pension earned at age 65, the actual pension that he would get at 65, as a percentage of the pension which he would have earned without changing jobs. So we are indicating here the penalty that the system necessarily puts on people who change jobs.

You will see that, no matter how you slice it, the man who changes jobs comes off a lot more poorly than the man who sticks with one job for his entire working career. The question is: How do we bring those closer together?

In the situation in which the man has had three jobs, even then he ends up with about 60 percent of the pension that he would have had if he had stayed on the same job. He loses benefits by moving from employer to employer, in large part because his years of service with prior employers relate to lower salary levels, while if he had stayed with a single employer, he would get credit for all years of service in terms of his final salary levels.

You will also see that the Senate rule for the man who has been a frequent job changer gives him only 9 percent of the pension he would have had if he had stayed on in that same job until age 65, whereas the rule of 50 gives him 22.5 percent. That is still perhaps not enough, but it is a lot better than 9 percent.

Again, for the man who has changed jobs every six years, he would get under the Senate rule only 15.8 percent of the pension which he would have earned if he had stayed on the job, whereas under the rule of 50 he gets 30 percent.

Similarly, down here for the man with five jobs over his career, he would get 50 percent under the Senate rule and 70 percent under the rule of 50.

So the rule of 50 provides a significantly greater pension for the man who has changed jobs and for the older worker who needs that protection the most, by minimizing the degree to which the natural working of the system tends to cut him back.

Now, you will see that in the last case, the rule of 50 turns out to be not quite so good as the Senate rule for the man who has changed three times. The comparison is about 63 percent and 60 percent, respectively. Chart 7 illustrates that such minor variations are a result, in substantial part, of what assumptions you make as to how many years he actually held which job.

Chart 7
Relative Percentage Will Change Slightly With Different Job Span Assumptions

Job No.	Three jobs with durations of:	Actual pension at age 65 as percent of pension earned without changing jobs: Senate rule	: Rule of 50
1	15 - 15 - 14 years	62.7%	60.2%
2	4 - 20 - 20 years	73.3	73.3
3	24 - 10 - 10 years	49.8	57.7

If you change the assumptions with respect to those three jobs a little bit, you get slightly different numbers. But, in any event, they are not too far apart under the Senate rule and the rule of 50. In the second case on this chart, they are the same. In the first, which is the same case we saw on chart 6, the Senate rule is better. And the last case is one where the Senate rule is not quite so good as the rule of 50.

So, for all of these reasons, it does appear to us that the rule of 50 provides a more efficient vesting formula. It helps the people who change jobs, and it does that because, as people get older, under the rule of 50 they are practically sure to accrue something, whereas under the Senate rule it doesn't make any difference whether they are old or not. So, at some point in his career, we tilt the scale in favor of the older worker and see that he comes out with something. Since everybody ultimately gets older, everybody ultimately shares in that kind of a formula.

Now, one of the criticisms sometimes made against the rule of 50 is that it discriminates against the hiring of older people. We say to you categorically that that is not true. We have had a great deal of difficulty in getting across to people why it is not true. But it is not true.

I will try once again to tell you why it is not true. It is that the older worker is more apt to stay on the job. We saw in chart 4 that the turnover rates are less in the case of the older worker than in the case of the younger worker. Therefore, the cost of vesting--which is the cost of dealing with those people who leave--is much less in the case of older employees than it is with younger employees. However, the cost of the basic pension is much greater in the case of older employees, assuming it is a defined benefit type of plan (i.e., a plan stated in terms of the employee's getting so many dollars out when he retires, as distinguished from a "money purchase" plan, which is stated in terms of how many dollars the employer puts into the plan with the ultimate benefit simply dependent on what that contribution is worth when he retires).

So, chart 8 shows the difference in the cost of the pension for an older employee and a younger employee.

Chart 8
The Rule of 50 Does Not Promote
Age Discrimination in Hiring

Age at hire	One-time cost per $100/year pension: Zero vesting	One-time cost per $100/year pension: Rule of 50
55	$570	$585
35	125	155
Extra pension cost of hiring older man	445	430

Assumes: Straight life annuity - male, 5 percent interest.
Typical turnover rate declining with age.
Immediate participation.

The first column shows the cost of the basic pension. It is a $100-a-year pension for each year of service. If the employer provides a $100-a-year pension, as some of the major corporate plans do--one of the very largest ones has that kind of benefit--that will cost, at age 55, $570. That is because that money is at work for only a few years. But in the case of an employee age 35, the cost for that employee's benefit is $125.

So, when you are talking about age discrimination, there is very substantial age discrimination built into the mere system of pensions. I don't think we should throw pensions out because of that, but it is a fact of life.

The cost of vesting, however, is less in the case of the older employee, because he is less likely to leave, than it is in the case of the younger employee. You will see that in the chart. In the case of the employee aged 55 with zero vesting, the cost of the initial pension is $570, but the incremental cost of vesting is only $15 more--$585 compared with $570. In the case of the younger employee, the pension itself costs much less, $125, but, because he is much more apt to leave and therefore to have a vesting cost--because vesting is the cost that the employer pays for people who leave--the incremental cost is $30. So that you have gone up $15 in the case of the older employee on account of vesting and $30 in the case of the younger employee.

What has actually happened is that the extra pension cost of hiring an older man as compared with the fellow 35 has decreased by using the rule of 50 from $445 under zero vesting to $430 under the rule of 50.

That is a slippery, hard concept to get hold of. But it is a fact that the rule of 50 does not discriminate on an age basis because the older people are much less likely to leave and therefore the cost of vesting, which is the cost of leaving, is less.

The last chart I should like to take you through while we are on these basic aspects of vesting and participation relates to the question of whether or not there should be a permissible exclusion from participation for older workers.

Chart 9
Pension Costs Could Prevent Hiring
After Age 60, Unless Exclusion Permits

Age at participation	Plan: 1-1/2 percent of final pay per year of participation		Plan: 50 percent of final pay (10-year minimum with proration)	
	Monthly pension	Cost as percent of pay	Monthly pension	Cost as percent of pay
32	$413	4%	$417	4%
62	38	12	125	40

Assumes: $10,000 pay
6 percent interest.

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What the chart shows is that there are situations where, because of the high cost of pension plans--not vesting, but pension plans--if you require participation for people who are close to retirement, you will be able to provide the pension only if the employer puts in a lot of money, because that money has such a short period in which to grow and compound.

Under the various assumptions in chart 9, there are very much higher pension costs for older people than for younger people. In the kind of plan shown on the left, the cost of putting a man 62 in the pension plan--of his participating at all--would be 12 percent of his pay. In the kind of plan shown on the right, which is not an unusual kind of plan, that cost could rise to 40 percent of his total pay.

At this point, one has to make one of these difficult judgmental decisions about whether or not it is more important that the man should have a theoretical pension right or that he should work. We say to you that is a tough question and nobody likes it because both of the answers are unattractive. But we believe that it is more important, when you get to that point, that the man be able to have a job than that he have the pension right, because he wouldn't get a pension anyway if he doesn't get the job.

Under those circumstances, we believe that something needs to be done as you reach the employee who is at an advanced age, for whom the cost of providing the pension is very large. Otherwise he will not, in fact, get hired.

Retroactive Vesting

So much for the type of vesting rule. There is another feature of the Senate bill about which we have some considerable concern. It is that the Senate bill vests benefits for periods prior to enactment. This creates for many employers and plans a very large, one-shot expense. In the aggregate for all plans, it roughly doubles the expense of the vesting provisions.

It is true that very many plans already have employees covered by equal or better vesting rules than those in the Senate bill. The Senate bill will not increase their vesting costs. But there are a very large number of plans where that is not true. Many of these are multi-employer plans which exist in declining industries and which presently have very high turnovers in the labor force and very low vesting rules. The Senate vesting provision would be retroactively applied to benefits accruing over as much as 30 to 40 years, during which the parties were led to understand that they had no such commitment. If such employers now, all at once, find that they have that extra liability, it may be that there will simply be plan terminations. There will certainly not be new plans or increased benefits for this kind of employer.

So that one again has to weigh what you are taking away from people in terms of overall benefits against what you are giving to a few people in the form of vesting benefits. We are concerned that the coverage retroactively, all of a sudden, of periods of 10, 20, 30 years into the past and the imposition of liabilities with respect to those periods as a condition to continued operation in the future, will be the kind of thing that will cause the collapse of a number of plans. We think, under those circumstances, it would be better to be a little less Draconian and have a few more benefits.

Excise Tax on Vesting

A third aspect of the Senate provisions on vesting is an excise tax on vesting. I am frank to say we do not understand it. Because we don't understand it, we oppose it. It doesn't, as we see it, respond to a known problem. As near as we can tell, it is a solution roaming around, hunting for a problem.

What it says, in effect, is that whenever a plan provides less than the plan provides, then a stiff tax is imposed on the difference. It just makes no sense. We think it should come out. It is inappropriate in the vesting area.

Uniformity of Vesting

I next turn to an aspect of vesting which we believe to be of major importance, which is the uniformity of vesting. As I have said to you, the Internal Revenue Service now operates with a myriad of vesting rules applied largely at the whim of a myriad of personnel around the country. This bill would be a major step toward uniformity and, in that respect, very desirable.

It is not entirely clear from the Senate bill--at least it is not clear from the Committee report--whether notwithstanding these uniform vesting rules there might be a different and higher vesting rule which the Service could seek to apply in particular instances. We think that is getting right back into the frying pan which we thought we had left.

The argument is that if you have a situation in which there is a very high turnover rate among the lower-paid employees, then if you don't vest them faster, you are discriminating against lower-paid employees. But the fact is, as you saw from the charts, there is always a high turnover rate among younger workers, who are, in most cases, the lower-paid employees, so that you have this situation in any business.

The question, then, becomes: Is there some point at which the turnover rate for the lower-paid employees becomes so great and they are so transient that somebody should give them a benefit that other employees don't have?

We think not. We think it is important that this uniformity concept be written into the law clearly. There is no reason why a transient employee should get better vesting in one company just because it happens to have higher turnover than he would get if he went to a company which did not have higher turnover.

If an employer fires an employee in order to prevent vesting, we think that ought to be stopped and the requirement that such an employee be vested is a necessary remedy. We think that ought to be clear in the Committee report.

There are also situations where a high turnover rate causes many forfeitures in the plan. Everybody participates but few stay long enough to collect, so the forfeitures end up being an unduly high benefit for those who remain or for those who are the higher-paid employees who run the company. We think that, too, is undesirable. But the solution, we believe, in that kind of a case is to limit the undue benefit--to see that the forfeitures don't operate in that way. The solution is not, in our view, to create a new windfall for the transient employees who happen to be coming in and out.

We do believe that employees should be treated alike and that transient employees in one company, in the absence of outright discrimination, should not be treated differently from employees in another company.

<u>Funding</u>

Funding is another major topic covered in the Senate bill. This is the process by which plans are required to put away in cash, money sufficient to meet their obligations. It is very important to the overall solvency of plans. Again, it is something that needs to be done gradually because a one-shot liability that must be met today and is very large may sink the company and the plan, which would be to no one's benefit. So that over a long pull, we have got to get better rules about funding for the plans that do exist.

The Administration bill proposed more stringent funding requirements than the Senate bill to be applied to unfunded liabilities. But those more stringent rules had to be considered in the light of the fact which I just adverted to, that the Administration bill would require vesting of accrued benefits only from the date of legislation. So, while the rule was more stringent, the base to which it was applied was less.

The Senate bill vests benefits accrued prior to enactment, so the base to which the funding rules apply becomes much larger. That sharply increases the total amount of unfunded liabilities which must be funded.

We believe that the Administration funding rule in combination with the Senate vesting rule would indeed be too stringent in some cases. Therefore, at least for the moment, if the Senate vesting rule is to prevail, then we think the Senate funding rule should also prevail.

If you should elect to change the vesting rules in respect to post-enactment and preenactment coverage, then we hope you would give consideration again to the somewhat tighter funding rules which the Administration had proposed.

So, taken in balance with the vesting rules, we see no particular problem with the Senate version of funding. I say we see no problem at the moment, but there has been insufficient time for intelligent reaction from the public on this score. These are very complex actuarial computations, and they will need to be studied by the actuaries in each company, with each plan, to see whether they create unanticipated problems.

We are frank to say that we don't know where all the problems lie, and we are sure we will be educated as taxpayers come to talk to us.

H.R. 2 has still another rule, which the Committee may wish to consider but which we have frankly had insufficient time to study.

Prohibition Against Nonqualified Plans

Next is the prohibition in the Senate bill against nonqualified plans. We are strongly opposed to this provision. The typical nonqualified plan is simply an unfunded plan. An employer agrees to continue the salary payments of his employees after retirement. It may be a small company and he has no funded plan. Often such an employer, as a matter of course, when somebody retires continues his salary or some portion of it. Hundreds of thousands of citizens are retired under such circumstances.

The bill would simply forbid it. It would require, among other things, that the Secretary of the Treasury get an injunction against such payments where they exist. It is one thing to deny tax benefits for plans which do not qualify, but it is senseless to cut off existing pensions for deserving citizens who will not otherwise get them. This provision seems to proceed on the assumption that half a loaf is worse than no loaf. We don't think that is a basically unsound assumption.

The Portability Fund

We believe the portability fund is unwise and we oppose it. While it is voluntary and therefore basically harmless, we believe it is cumbersome, costly, and of little practical utility. It is, in fact, a bank, a receptacle into which people may place their vested credits--the $35, the $414, that we saw in earlier charts--and leave them in the pension system if they desire. That is all right. But we have another technique for doing it which we think is better.

The portability fund seems to us to be just another bureaucratic institution added to the tangle that we already have.

Termination Insurance

Termination insurance is a fundamental and highly publicized aspect of the bill. We strongly oppose the Senate provisions with respect to termination insurance. That does not mean that we are callous to the problems which the termination of unfunded plans may create for employees. We agree that unfunded plan terminations create serious hardship for the employees affected. It is often, indeed, a personal tragedy.

In 1973, 8,450 employees, or four one-hundredths of 1 percent of a covered work force of some 23 million employees, suffered some loss of vested benefits. Termination insurance would help some of those people to some extent. Such benefits must be balanced against the disadvantages which will adversely affect many employees, employers, and plans. If a single firm with 10,000 employees fails to establish a plan because its credit position will not permit it to withstand the liabilities associated with termination insurance, the loss to employees will be greater than the 1973 losses from unfunded terminations.

The central dilemma with respect to termination insurance revolves around the problem of employer liability. As to existing plans, the bill would impose a substantial, unbargained-for and hitherto unforeseeable direct liability on employers to guarantee the predicted pension benefits. This is particularly serious and perhaps even unconstitutional where the bill's new minimum vesting standards substantially and voluntarily increase the vesting liability.

So, all of a sudden, you not only have increased liabilities for the funding and vesting of the plan, but you also, at the same time, have an absolute retroactive liability for vested amounts, which you never had before.

One of the disturbing and most troublesome aspects about that liability is that new liabilities may have to be booked--at least for weak employers where the danger of nonpayment is significant--which would, in turn, trigger defaults in trust indentures and bank loans, creating business contractions and insolvencies, and unemployment for the very workers the plan seeks to protect.

So that, again, one can easily fall into a very counterproductive situation if the booking of the liabilities, in fact, leads to the demise of the company.

There are special problems with respect to employers in multi-employer plans, who have hitherto agreed to pay a certain amount of cents per hour of work. It has previously been a widespread practice for employers to pay a certain amount of cents per hour into a common fund. It appears under the bill that employers under those agreements, who never agreed to paying more than, say, 10 cents an hour, may be liable if indeed the 10 cents fails to purchase the hoped-for benefits from the fund. So that such employers would now be directly and individually liable for pension commitments made on the basis of fallible actuarial expectations by union-management actions in which the individual employer had maybe one vote and maybe no vote at all.

If, for example, you have an industrywide contractors' plan, with thousands of employers in it who agreed to put 10 cents for each hour's work into the plan, each one of those employers will be liable to the plan if it fails to produce the benefits which the plan told the employees it would like to provide.

As to the 50 percent of the work force which still has no pension protection, such employer liability will deter the establishment of new plans. If plans are to be established, the termination insurance provisions will deter the establishment of defined benefit types of plans, which favor the older employees.

Note that it is not the premium that is the disturbing thing. It is that underlying the premium is the fact that the employer is liable for the full amount by which the plan falls short. The insurance company recovers its liability back from the employer, if he has assets to pay it.

Within recent days a proposal has been put forward which would provide termination insurance through a plan with private elements, which would replace the Government corporation provided in the Senate bill. Preliminary analysis shows this, too, has major drawbacks. However, we believe the Committee should take time to consider whether this insurance, if it is to be done, can be better provided by an existing industry rather than a new Government bureaucracy.

Reporting, Disclosure and Fiduciary Aspects

In respect of reporting and disclosure, the thrust of the Senate bill follows the proposals which this Administration has advanced on three separate occasions. Accordingly, we favor them. However, the Senate did make some technical changes in those proposals. As we go through these portions of the bill, we will have suggestions which we hope you will take into account for technical changes in the Senate bill. We are working on this now and have not yet finished our analysis.

In respect of fiduciary standards, the provisions of the bill again follow the Administration's proposals and, on the whole, we do not object to the technical changes that have been made. We believe these matters are primarily the concern of the Department of Labor, but there are aspects of them which do affect taxes. Again, we are studying them and will have comments.

Administrative Aspects and the "Head Tax"

In respect of administrative aspects, the bill provides for a new branch of the IRS and a new Assistant Commissioner. The bill will thus dictate management by statute. We believe effective, efficient management should be left to administrators and that it is fundamentally unwise to lock in management functions by statute. We think statutes should tell management what to do but not how to do it.

This is the only statutory Assistant Commissioner which the Code provides for the Internal Revenue Service. In the past, there has from time to time been at the Internal Revenue Service a reshuffling of duties of the Assistant Commissioners to promote greater efficiency and better working relationships. We don't believe we should have to come to this Committee and bother you with requests to change the duties and operation of the Service on a day-to-day basis.

On the other hand, we have no objection to trying this out. We are willing to commit the Service to giving such an arrangement a fair trial if we can be sure that the expanded duties will not be at the expense of the Service's present duties to collect the revenue.

The bill also provides a head tax, ostensibly for audit expense. It is a $1 per head tax on plan participants. We don't believe this tax can be justified as a user charge in respect of audit costs. Some large employers would be saddled with audit costs running up to a million dollars, when in fact the larger companies have fewer audit problems than the myriad of smaller employers. Further, this provision appears to be an entering wedge to bad budgeting practices; namely, the earmarking of receipts.

Individual Retirement Accounts

Article VII of the Senate bill contains provisions for individual retirement accounts. We enthusiastically applaud this provision. It fills a major gap by allowing the 50 percent of American workers who have no private pension protection to assist themselves in a modest way.

The Senate bill extends this relief only to those who are not now participants in qualified plans, even though those plans provide very inadequate benefits. The original Administration proposal would have permitted relief also for those employees who participate in plans which are so inadequate that they are below the $1,500 a year contribution level which the individual retirement accounts contemplate.

We hope the Committee will give favorable consideration to restoring those provisions which would permit self-help for people with inadequate plans as well as for those with no plans.

Self-Employed

The provision for the self-employed in the Senate bill largely incorporates the Administration's recommendations. These recommendations are a long step in the right direction of removing artificial

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distinctions based on the form of doing business, a distinction which has fostered unnecessary incorporation and has led to the wholesale incorporation of businesses which ought to stay as non-corporations.

If your Committee is to place limits on corporate plans as the Senate bill does, we urge you to consider whether those same limits, whatever they are, might also become the limits for the self-employed. That consideration should also include a thorough reconsideration of the other differences between corporate and non-corporate plans which are also important.

Within the limits of budgetary constraints, greater uniformity would be highly desirable in this area. It would produce greater equity and greater simplicity and reduce the tendency toward unnecessary incorporations.

Lump-sum Distributions

Lump-sum distributions are the distributions made in one lump sum to an employee who leaves a plan. We agree that the present rules are impossibly complex for the taxpayers and for the Internal Revenue Service.

We urge they be changed. We originally believed that the Senate provisions would be a substantial improvement. On continuing reflection, we have become concerned that the provisions may open new loopholes for the sophisticated planning which has always flourished in this area. That, in turn, will introduce new complexities. We have discussed this with the staff, but I am sorry to say we do not at this time have an answer which we believe to be adequate.

Limitations on Corporate Plans

I turn now to the last item, which is the limitations on corporate plans. The original Administration proposals did not include limitations on corporate plans, which, as I have said earlier, have been largely unlimited over many years. However, the Senate voted by floor amendment, by a vote of 89 to 2, to impose such limitations. The Administration did not oppose that action.

The action of the Senate raises a very fundamental question. It is: Should there be some ceiling on the extent to which the government should assist, through special tax benefits, in providing retirement pay for any given person? The real issue is not whether pensions larger than $75,000 should be paid, because we assume they would be. But the issue is whether there should be tax support given for benefits in excess of some such amount.

A second issue is whether profit sharing plans should be treated differently than other retirement plans. Is the desirable goal of employees sharing in their employer's profits an important national goal deserving of tax assistance over and above the extent to which it provides adequate retirement benefits? Again, you are not faced with the question of whether profit sharing is to be allowed, but rather with the issue of the extent to which tax dollars should be used to further that goal.

All of these questions must be answered by your Committee in the context of the basic fact that the present pension and profit sharing benefits reduce tax revenues by roughly $4 billion a year, nearly 2 percent of our total tax receipts. Yet, for that very large sum we provide benefits for less than half of our workers.

A number of technical problems with respect to limitations must still be worked out, some of which can be worked out by the staff, but a number of which raise substantive issues which should be considered by the Committee.

One of the most important of those is the kind of issue raised by the cost of living data I showed you. It is the issue of whether it is realistic to put any flat dollar limitation on pensions when you are looking 45 years down the road to a very substantial rise in earnings and costs. We believe any limitation, if it is a dollar limitation, should be covered by some kind of cost of living adjustment.

Conclusion

In conclusion, I have tried to touch on very broad issues. I hope it is apparent at this point that the subject is a vast one. I know that you are aware that it intimately affects the well-being of millions of taxpayers.

It is of great importance. It deserves, and I am sure it will receive, your most careful attention.

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Additional Comments by Mr. Hickman in Response to Questions

In response to questions concerning the timing of Committee action on the bill:

"I am not suggesting any particular time table for the Committee, but I think that the Committee should take whatever time is necessary to be assured that we have adequate response from the public so that we understand the problems that they have found in the bill. I think that does necessarily mean that a two-week schedule of Committee deliberations is insufficient. That cannot happen in that period of time.

* * *

"I think that it [Committee action] should be done at the earliest possible time that your Committee and the Senate Committee can iron the problems out of the bill. I think that will take a reasonable period of time. It depends on when Congress wishes to go home, I think, whether you can realistically get it done [this year].

"I think the most important thing we face at the moment is, first, time for the staffs to clean up the Senate bill, or at least to get it fixed up so that it seems to work; and, second, we need time for the public to respond in a meaningful way to the questions of how the bill affects them. In that process I think we learn about a great many defects that those of us here in Washington perhaps did not realize were in the plan.

"I therefore think--if you want just my candid opinion about how best to proceed--that the most sensible thing to do would be to hold off for a couple of weeks while we have a chance for those things to happen and then for the Committee to reconvene and deal with the problems on the basis of a more solid factual foundation and a better drafted bill. Then I think you could hopefully move steadily from beginning to end. I don't believe there is any magic date at which you need to finish this assuming that you keep it in a steady way. It is much more important that we have good legislation than that it be done one week or two weeks earlier."

<u>In response to a question concerning the $75,000 limitation on benefits from qualified plans:</u>

"We are very strongly opposed to any limitation on how much of a pension anybody can get from any company. But that is a different question than we have here. The question at hand is how much of whatever pension is granted should the government contribute to with tax dollars.

"That is all that we hope we are concerned with here. I realize that there is in the bill, as it presently stands, a prohibition against so-called nonqualified plans, which when read in conjunction with this limitation on the qualified plans and depending on how you read the limitation on nonqualified plans would seem to put an absolute cap on pensions. We think that ought to come out. There ought not to be an absolute cap on what anybody can get. That is a question of negotiation between the private parties. But there may be a question as to what the tax benefits should be."

<u>In response to the suggestion that Article 7 (dealing, in part, with self-employed plans and individual retirement accounts) entails a large revenue loss and should be deleted:</u>

"The biggest single item in that revenue loss, some $355 million, is the provision which would permit those people in the one-half of the work force who do not share in the $4 billion that we are already losing to assist themselves in some modest way. That is where the revenue loss is.

". . . we felt that it was important that the one-half of the work force that does not share in these tax benefits should have a chance at least gradually and in some modest way to equalize the treatment.

"They are at a terrific disadvantage. The amount we are now losing on account of retirement plans is very large in the total budget and a great many people do not share in it. They tend to be people who are not busy here in the halls of Congress. They are little people. They are not represented by unions. They are typically not employees at large corporations.

"They are just people. And they are getting the short end of the stick. We felt it was time we made a real effort to extend treatment to them. A great many of them are the women that Mrs. Griffiths is especially worried about."

Department of the TREASURY NEWS

HINGTON, D.C. 20220 TELEPHONE WO4-2041

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R RELEASE 6:30 P.M.

October 29, 1973

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.5 billion of 13-week Treasury bills and for $1.8 billion 26-week Treasury bills, both series to be issued on November 1, 1973, were ened at the Federal Reserve Banks today. The details are as follows:

NGE OF ACCEPTED MPETITIVE BIDS:	13-week bills maturing January 31, 1974		26-week bills maturing May 2, 1974	
	Price	Equivalent annual rate	Price	Equivalent annual rate
High	98.190 a/	7.160%	96.344 b/	7.232%
Low	98.169	7.244%	96.317	7.285%
Average	98.181	7.196% 1/	96.328	7.263% 1/

/ Excepting 2 tenders totaling $65,000; b/ Excepting 1 tender of $10,000

Tenders at the low price for the 13-week bills were allotted 62%
Tenders at the low price for the 26-week bills were allotted 84%.

OTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 32,460,000	$ 22,460,000	$ 16,415,000	$ 6,415,000
New York	3,239,790,000	2,031,000,000	2,870,070,000	1,610,270,000
Philadelphia	22,050,000	21,985,000	32,615,000	12,615,000
Cleveland	26,830,000	26,830,000	32,130,000	12,030,000
Richmond	29,725,000	19,325,000	30,375,000	10,365,000
Atlanta	19,295,000	16,070,000	13,975,000	8,975,000
Chicago	295,555,000	185,055,000	239,700,000	74,250,000
St. Louis	30,035,000	24,035,000	30,205,000	25,475,000
Minneapolis	35,900,000	22,900,000	31,335,000	3,335,000
Kansas City	34,085,000	20,635,000	21,595,000	13,400,000
Dallas	38,745,000	23,345,000	30,765,000	8,265,000
San Francisco	133,730,000	86,830,000	124,370,000	14,770,000
TOTALS	$3,938,200,000	$2,500,470,000 c/	$3,473,550,000	$1,800,165,000 d/

c/ Includes $271,770,000 noncompetitive tenders accepted at the average price.
d/ Includes $122,165,000 noncompetitive tenders accepted at the average price.
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 7.43 % for the 13-week bills, and 7.64% for the 26-week bills.

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

FOR IMMEDIATE RELEASE 479 October 30, 1973

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $4,300,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing November 8, 1973, in the amount of $4,303,280,000 as follows:

91-day bills (to maturity date) to be issued November 8, 1973, in the amount of $2,500,000,000, or thereabouts, representing an additional amount of bills dated August 9, 1973, and to mature February 7, 1974 (CUSIP No. 912793 SX5) originally issued in the amount of $1,801,615,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,800,000,000, or thereabouts, to be dated November 8, 1973, and to mature May 9, 1974 (CUSIP No. 912793 TL0).

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, November 5, 1973. Tenders will not be received at the Treasury Department, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

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

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on November 8, 1973, in cash or other immediately available funds or in a like face amount of Treasury bills maturing November 8, 1973. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder must include in his income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

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

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

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FOR RELEASE 6:30 P.M. October 30, 1973

RESULTS OF TREASURY NOTE AUCTION

The Treasury has accepted $2.0 billion of the $2.9 billion of tenders received from the public for the 6-year 7% notes auctioned today. The range of accepted competitive bids was as follows:

	Price	Approximate Yield
High	101.21 1/	6.75%
Low	100.63	6.87%
Average	100.88	6.82%

1/ Excepting one tender of $2,000,000

The $2.0 billion of accepted tenders includes 39 % of the amount of notes bid for at the low price, and $0.2 billion of noncompetitive tenders accepted at the average price.

In addition, $0.2 billion of the notes were allotted to Federal Reserve Banks and Government accounts at the average price, in exchange for securities maturing November 15.

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

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EMBARGOED FOR RELEASE AT 12 NOON EDT October 31, 1973

TREASURY SECRETARY GEORGE SHULTZ
TRANSMITS PROPOSED
IDA IV, ADB LEGISLATION

Secretary of the Treasury George P. Shultz today transmitted to the Congress two draft bills requesting increased participation by the United States in the International Development Association and in the Special Funds of the Asian Development Bank. Copies of the proposed legislation are attached, along with the President's message on international development assistance.

THE SECRETARY OF THE TREASURY
WASHINGTON

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OCT 31 1973

Dear Sir:

In accordance with President Nixon's message on international development assistance, transmitted to the Congress today, I am enclosing two draft bills, one "To provide for increased participation by the United States in the International Development Association," and the other "To provide for increased United States contributions to the Special Funds of Asian Development Bank." Special Reports of the National Advisory Council on International Monetary and Financial Policies on the Fourth Replenishment of the Association and on increased contributions to the Asian Development Bank will be transmitted separately to you and to the Speaker of the House of Representatives.

I would appreciate it if you would lay the proposed bills before the Senate. Similar bills have been transmitted to the Speaker of the House of Representatives.

Sincerely yours,

George P. Shultz

George P. Shultz

The Honorable
James O. Eastland
President Pro Tempore
United States Senate
Washington, D.C. 20510

Enclosures

THE SECRETARY OF THE TREASURY
WASHINGTON

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OCT 31 1973

Dear Mr. Speaker:

In accordance with President Nixon's message on international development assistance, transmitted to the Congress today, I am enclosing two draft bills, one "To provide for increased participation by the United States in the International Development Association," and the other "To provide for increased United States contributions to the Special Funds of the Asian Development Bank." Special Reports of the National Advisory Council on International Monetary and Financial Policies on the Fourth Replenishment of the Association and on increased contributions to the Asian Development Bank will be transmitted separately to you and to the President pro tempore of the Senate.

I would appreciate it if you would lay the proposed bills before the House of Representatives. Similar bills have been transmitted to the President pro tempore of the Senate.

Sincerely yours,

George P. Shultz

George P. Shultz

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

Enclosures

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A BILL

To provide for increased participation by the United States in the International Development Association.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the International Development Association Act (22 U.S.C. 284 *et seq.*) is amended by adding at the end thereof the following new section:

"Sec. 14. (a) The United States Governor is hereby authorized to agree on behalf of the United States to pay to the Association \$1.5 billion as the United States contribution to the Fourth Replenishment of the Resources of the Association.

(b) In order to pay for the United States contribution, there is hereby authorized to be appropriated without fiscal year limitation \$1.5 billion for payment by the Secretary of the Treasury."

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A BILL

To provide for increased United States contributions to the Special Funds of the Asian Development Bank.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Asian Development Bank Act, as amended (22 U.S.C. 285-285p), is further amended by adding at the end thereof the following new section:

"Sec. 21. (a) The United States Governor of the Bank is hereby authorized to agree to contribute on behalf of the United States $50 million to the Special Funds of the Bank. This contribution shall be made available to the Bank pursuant to the provisions of Article 19 of the Articles of Agreement of the Bank.

(b) In order to pay for the United States contribution to the Special Funds, there is hereby authorized to be appropriated without fiscal year limitation $50 million for payment by the Secretary of the Treasury."

EMBARGOED FOR RELEASE
UNTIL 12:00 NOON, EST

October 31, 1973

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Office of the White House Press Secretary

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THE WHITE HOUSE

TO THE CONGRESS OF THE UNITED STATES:

As their role in conveying financial assistance to developing countries has steadily enlarged in recent years, multilateral lending institutions have become vital to our hopes for constructing a new international economic order.

One of the most important of these institutions is the International Development Association, a subsidiary of the World Bank that provides long-term loans at low interest rates to the world's poorest nations. During the 13 years of its operation, IDA has provided over $6.1 billion of development credits to nearly 70 of the least developed countries of the world. Two dozen countries have contributed funds for this effort.

By next June, however, the International Development Association will be out of funds unless it is replenished. As a result of an understanding reached in recent international negotiations, I am today proposing to the Congress that the United States join with other major industrialized nations in pledging significant new funds to this organization. Specifically, I am requesting that the Congress authorize for future appropriation the sum of $1.5 billion for the fourth replenishment of IDA. Initial payments would be made in fiscal year 1976 and the full amount would be paid out over a period of years.

I am also requesting that the Congress authorize an additional $50 million for the Special Funds of the Asian Development Bank. The bank is one of the major regional banks in the world that complements the work of the International Development Association and the World Bank.

Legislation for both of these authorities is being submitted to the Congress today by the Secretary of the Treasury.

Strengthening the International Economic System

Just over a year ago, in September 1972 at the annual meeting in Washington of the International Monetary Fund and the World Bank, I stressed the urgent need to build a secure structure of peace, not only in the political realm but in the economic realm as well. I stated then that the time had come for action across the entire front of international economic problems, and I emphasized that recurring monetary crises, incorrect alignments, distorted trading arrangements, and great disparities in development not only injured our economies, but also created political tensions that subvert the cause of peace. I urged that all nations come together to deal promptly with these fundamental problems.

I am happy to be able to report that since that 1972 meeting, we have made encouraging progress toward updating and revising the basic rules for the conduct of international

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rely upon them in the future for essential materials. These developing countries are also good customers, buying more from us then we do from them.

New Proposals for Multilateral Assistance

Because multilateral lending institutions make such a substantial contribution to world peace, it must be a matter of concern for the United States that the International Development Association will be out of funds by June 30, 1974, if its resources are not replenished.

The developing world now looks to the replenishment of IDA's resources as a key test of the willingness of industrialized, developed nations to cooperate in assuring the fuller participation of developing countries in the international economy. At the Nairobi meeting of the World Bank last month, it was agreed by 25 donor countries to submit for approval of their legislatures a proposal to authorize $4.5 billion of new resources to IDA. Under this proposal, the share of the United States in the replenishment would drop from 40 percent to 33 percent. This represents a significant accomplishment in distributing responsibility for development more equitably. Other countries would put up $3 billion, twice the proposed United States contribution of $1.5 billion. Furthermore, to reduce annual appropriations requirements, our payments can be made in installments at the rate of $375 million a year for four years, beginning in fiscal year 1976.

We have also been negotiating with other participating nations to increase funds for the long-term, low-interest operation of the Asian Development Bank. As a result of these negotiations, I am requesting the Congress to authorize $50 million of additional contributions to the ADB by the United States -- beyond a $100 million contribution already approved. These new funds would be associated with additional contributions of about $350 million from other nations.

Meeting our Responsibilities

In addition to these proposals for pledging future funds, I would point out that the Congress also has before it appropriations requests for fiscal year 1974 -- a year that is already one-third completed -- for bilateral and multilateral assistance to support our role in international cooperation. It is my profound conviction that it is in our own best interest that the Congress move quickly to enact these pending appropriations requests. We are now behind schedule in providing our contributions to the International Development Association, the Inter-American Development Bank and the Asian Development Bank, so that we are not keeping our part of the bargain. We must show other nations that the United States will continue to meet its international responsibilities.

All nations which enjoy advanced stages of industrial development have a grave responsibility to assist those countries whose major development lies ahead. By providing support for international economic assistance on an equitable basis, we are helping others to help themselves and at the same time building effective institutions for international cooperation in the critical years ahead. I urge the Congress to act promptly on these proposals.

RICHARD NIXON

THE WHITE HOUSE,

October 31, 1973

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financial and trade affairs that have guided us since the end of World War II. Monetary reform negotiations, begun last year, are now well advanced toward forging a new and stronger international monetary system. A date of July 31, 1974, has been set as a realistic deadline for completing a basic agreement among nations on the new system.

Concurrently, we are taking the fundamental steps at home and abroad that will lead to needed improvement in the international trading system. On September 14, while meeting in Tokyo, the world's major trading nations launched new multilateral trade negotiations which could lead to a significant reduction of world trade barriers and reform of our rules for trade. The Congress is now considering trade reform legislation that is essential to allow the United States to participate effectively in these negotiations.

Essential Role of Development Assistance

While there is great promise in both the trade and monetary negotiations, it is important that strong efforts also be made in the international effort to support economic development -- particularly in providing reasonable amounts of new funds for international lending institutions.

A stable and flexible monetary system, a fairer and more efficient system of trade and investment, and a solid structure of cooperation in economic development are the essential components of international economic relations. We must act in each of these interdependent areas. If we fail or fall behind in one, we weaken the entire effort. We need an economic system that is balanced and responsive in all its parts, along with international institutions that reinforce the principles and rules we negotiate.

We cannot expect other nations -- developed or developing -- to respond fully to our call for stronger and more efficient trading and monetary systems, if at the same time we are not willing to assume our share of the effort to ensure that the interests of the poorer nations are taken into account. Our position as a leader in promoting a more reasonable world order and our credibility as a negotiator would be seriously weakened if we do not take decisive and responsible action to assist those nations to achieve their aspirations toward economic development.

There are some two dozen non-communist countries which provide assistance to developing countries. About 20 percent of the total aid flow from these countries is now channeled through multilateral lending institutions such as the World Bank group -- which includes IDA -- and the regional development banks.

These multilateral lending institutions play an important role in American foreign policy. By encouraging developing countries to participate in a joint effort to raise their living standards, they help to make those countries more self reliant. They provide a pool of unmatched technical expertise. And they provide a useful vehicle for encouraging other industrialized countries to take a larger responsibility for the future of the developing world, which in turn enables us to reduce our direct assistance.

The American economy also benefits from our support of international development. Developing countries today provide one-third of our raw material imports, and we will increasingly

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FOR IMMEDIATE RELEASE October 31, 1973

Secretary of the Treasury George P. Shultz said today the economy was giving out a great many good signals that were getting relatively little attention.

"I sometimes think the solution to that is," he said in informal remarks at a U.S. Savings Bonds luncheon, "to put it in a book, stamp it 'top secret' and let it leak."

In support of his statement Mr. Shultz cited large percentage drops in the prices of grain and other farm products from their high points last summer.

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FOR RELEASE AT 6:30 P. M. October 31, 1973

RESULTS OF TREASURY'S NOTE AND BOND AUCTIONS

The Treasury has accepted from the public $1,501 million of tenders for the 7% 25-1/2 month notes and $300 million of tenders for the 7-1/2% 19-3/4 year bonds auctioned today. Total tenders received were $2,850 million for the notes and $1,287 million for the bonds.

The range of accepted competitive bids for the notes was as follows:

	Price	Approximate Yield
High	100.49	6.73%
Low	100.09	6.94%
Average	100.14	6.91%

The lowest price accepted for the bonds was 101.60, which is the price to be paid by all successful bidders. This price results in a yield of 7.32% to the first callable date, August 15, 1988, and 7.35% to maturity.

Accepted tenders for the notes include 84% of the amount bid for at the low price, and $226 million of noncompetitive tenders accepted at the average price.

Accepted tenders for the bonds include 99% of the amount bid for at the low price, and $40 million of noncompetitive tenders.

In addition to the amounts allotted to the public, $220 million of the notes and $136 million of the bonds were allotted to Federal Reserve Banks and Government accounts in exchange for bonds maturing November 15.

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FOR IMMEDIATE RELEASE Oct. 31, 1973

A Treasury spokesman today issued the following statement:

Secretary of the Treasury George P.Shultz has been asked about a news report saying that the Secretary yesterday told Sir Christopher Soames, Common Market Commissioner for External Affairs, that "the Community's refusal to compromise on trade affairs was 'appalling' and 'shocking'"

Secretary Shultz states that the dispatch is incorrect.

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