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TESTIMONY BY THE HONORABLE WILLIAM E. SIMON
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BEFORE THE
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
OF THE
SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
TUESDAY, NOVEMBER 6, 1973

Mr. Chairman and Members of the Committee:

It is a pleasure for me to appear before you today to discuss our recommendations for change in our financial system.

We all should appreciate the fact that we are now in a unique position to revise in a constructive manner the banking laws of our Nation. Events during the last decade have revealed significant defects in our financial markets in general and our financial institutions in particular and it is apparent to many in the banking industry, as well as the government, that there is a need for basic structural reform. The credit crunch of 1966, the monetary and gold crises of 1968, the severe squeeze of 1969-1970, as well as the interest rate escalation of 1973, illustrate that our system does not adjust well to short-term changes in economic and financial conditions.

There have been thoughtful and comprehensive studies which have outlined the appropriate prescription for change. As Reed O. Hunt just testified, the President's Commission on Financial Structure and Regulation labored eighteen months, commencing in June 1970, to develop its comprehensive approach to financial reform. Subsequently, this Administration has undertaken a twenty month review of not only this report but also many others in order to develop as balanced and structurally sound a proposal as possible.

With this background of study, we believe that now is the time to act. We must develop a permanent system that will allow our financial institutions to be less dependent on the government. Increasing government involvement is evidenced by the consistently expanding scope and size of the market-borrowing activities of credit agencies created by the government like the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Government National Mortgage Association (mortgage-backed securities), the Federal Home Loan Banks, and the agencies of the Farm Credit Administration. Many activities of these organizations are manifestations of government reaction to financial crises. The debt generated by these agencies has grown from $13 billion outstanding at the end of fiscal year 1965 to $65 billion at the end of September 1973, and shows signs of still more growth. Just in the first nine months of this year, the net increase in this debt was $15 billion.

Such an accelerated expansion in the volume of Federal agency obligations in the market necessarily entails interest rates on these securities at levels high enough to attract funds from investors who would otherwise deposit their funds in banks, savings and loan associations, and other thrift institutions. In this way, borrowing by government and government-sponsored agencies contributes to the now familiar disintermediation process which has the effect of disrupting the normal flow of mortgage and other funds through lending institutions. Thus these borrowings by Federally-sponsored agencies, while intended to assist the mortgage market, compete with housing, small business, municipal, and other borrowing -- so that their net effect on the allocation of credit in the economy is not clear. It is unmistakably clear, however, that credit and financial institutions are becoming increasingly dependent upon direct goverment intervention and support.

This unwarranted govermental role once again illustrates that we have a banking structure which has been largely constructed by historical accident and one which has been reworked and patched up typically only in times of financial crisis.

Our financial system, like any system which has not been updated, needs to be brought into the twentieth century. Presently, it is a system which responds to changes in monetary policy with overt spasms, to the detriment of both savers and borrowers. The reactions in our financial system result in an overabundance of money flowing into institutions at certain times in our business cycle followed by a total cessation of deposits and even large withdrawals at other times. They have been exacerbated by, and in large part caused by, the rigidities built into our banking laws over the past six decades. Financial institution laws simply have not kept up with changing times, and the increased intensity and frequency of these spasms are testimony to that fact. We must strive to create laws which will allow our financial institutions to change with changing times while providing necessary services to their communities; to collect the savings of these communities; and to make loans to customers in the most efficient, prudent and responsive manner possible.

We must modernize our banking and savings laws. We must insulate our financial institutions, to the extent possible, from periods of monetary restraint by giving them the ability to compete in the market place. In this way, these institutions will be able to function normally when interest rates rise.

In order to understand this, it is important to recognize the special role interest rates play in our economy. Unfortunately, a discussion of the role and the behavior of interest rates in our economy often quickly deteriorates to a level of emotion and theology. It is a fact of life that the level of interest rates reflects the interplay between the supply and demand for credit, plus the current and expectational rate of inflation. 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.

And this is what interest rates have done -- they have responded to the fiscal and monetary policies that have been employed. In order to resolve completely the problems of our financial institutions, we must make a dual commitment not only to modernize our financial system but also to adopt the proper mix of monetary and fiscal policies.

Goals

Before thoughtful discussions can begin on the details of any financial reform, the goals of the envisioned new system must be presented and scrutinized as precisely as possible. All too often we fall into the trap of arguing specifics of a particular recommendation without first having a clear view of where we are headed. I would like to outline six goals of the President's recommendations.

(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, personal loans, 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. Thrift institutions must bring their assets and liabilities into better balance by shortening the maturity of some of their loans and by stretching out the maturities of their deposits. 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.

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(6) Finally, a sixth goal is to preserve and strengthen our dual banking system. 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.

The potential issues in a complete reformation of our financial system are immense. The President's recommendations do not cover the entire spectrum of problems but concentrate on the most fundamental area which is best described as the financial institution's relationship to its customers. The recommendations deal chiefly with the services which financial institutions may offer their customers, the rates of interest it may pay to its customers on deposits, and the different tax treatment that various institutions receive for making loans to the public. Our recommendations do not deal with the relationships between our financial institutions and their supervisory agencies. There is certainly a need to study these issues, and we would be glad to work with the Congress as you consider this important area.

For convenience of discussion, the President's recommendations may be broken down into seven issues. Six relate to this Committee, while the seventh-taxation-will be within the jurisdiction of the Finance Committee. With respect to each of these issues, I will discuss the background that gave rise to our recommendations and then the recommendations themselves.

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 proven incorrect -- was that excessive 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.1/

However, development of "negotiable order of withdrawal" (N.O.W.) accounts and the development of "electronic funds transfer system" (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 1930s', 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 FRB had authority to set interest rate ceilings for national banks and state banks which are members of the Federal Reserve System. The three supervisory authorities then agreed to formalize the historical 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, nor did they 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. Those who, due to their unsophistication or small savings, had only limited outlets for their savings, were forced to accept less than market rates. However,

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1/ For a study attacking the theory that massive bank failures were caused by interest rate competition for deposits, see Albert H. Cox, Jr., Regulation of Interest Rates on Bank Deposits, Michigan Business Studies, Vol. XVII, No. 4, Bureau of Business Research, Graduate School of Business Administration, The University of Michigan, Ann Arbor, Michigan, 1966, pp. 74-76.

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large savers who withdrew their funds had the option of acquiring debt issues of the Federal Home Loan Banks at market rates. Funds raised in that manner were then reloaned to thrift institutions at rates generally above deposit rates. This is one of the many examples of what may be called the "chase your tail syndrome" which exerts upward pressure on interest rates but does not increase the funds available to thrift institutions.

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.

Formal interest differentials between types of institutions may have prevented, to some extent, a shift of deposits from thrift institutions to commercial banks. If they did, the interest differentials 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 three "credit crunches" and by constant advertisements about interest rates, even the less sophisticated savers have shifted their funds to the higher yielding instruments when market rates greatly exceed passbook ceilings. Such shifts began in the summer of 1973.

Thus, it is obvious the interest ceilings or differentials cannot 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.

Truth-in-Savings is a related issue which must also be addressed. The consumer-saver frequently does not have adequate information at his disposal before opening an account for his savings. Information on the calculation of interest, payment dates, and other terms and conditions of interest-bearing accounts might be fragmentary, misleading, or even non-existent. With greater understanding of these matters will come increased confidence in financial institutions, and a greater tendency on the part of the public to save. Most importantly, full information will permit the consumer to shop for the best rate or combination of conditions which fit his situation, and will enable him to verify more easily the amount of earnings credited to his account.

RECOMMENDATION

With this background relating to the payment of interest on deposit accounts, let us turn to our recommendations:

Payment of interest on demand deposits will remain prohibited for all institutions.

Regulation Q, setting interest rate ceilings, 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 the proposed legislation is enacted. At the same time, preparations can be made for completely eliminating 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 savings accounts.

Administrative decisions on the actual levels of ceiling rates will be made by the Federal Reserve Board, the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board for the institutions under their jurisdictions after consultation among all the agencies and the Secretary of the Treasury.

With respect to Truth-in-Savings, the President recommends that full disclosure of the following terms be given to each saver at the time he places funds in an interest bearing deposit account:

1. Annual percentage rate;
2. Minimum length of time a deposit must remain on deposit so that earnings are payable at that percentage rate;
3. Number of times each year earnings are compounded;
4. Dates on which earnings are payable;
5. Charges initially or periodically made against any deposits;
6. Terms or conditions which increase or reduce the rate of earnings payable; and

7. Any restrictions, and amount or method of determining penalties or charges imposed on the use of funds in any deposit.

In every advertisement of interest-bearing accounts, the annual percentage yield may be provided, but, if it is, the annual percentage rate must be stated in print at least as large as that of the annual percentage yield.

Issue 2

EXPANDED DEPOSIT LIABILITY POWERS AND RESERVES

Background

Eliminating preferential interest rates for thrift institutions will require adjustments in their deposit liabilities and assets so they can compete with commercial banks and other competitors for the savings dollar.

In the area of deposit powers, federally-insured thrift institutions are now prohibited by law from offering third-party payment services (i.e., bona fide checking accounts) but they may issue non-negotiable orders of withdrawal (N.O.W. accounts) in Massachusetts and New Hampshire.

For their part, commercial banks are prohibited from offering savings accounts to their corporate customers. Such accounts were prohibited by the Federal Reserve in 1936 on the theory that they represent 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 constrants 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. State-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 between checking and savings accounts. These innovative changes which are sought by the customer should be supported.

In addition, some people say that if commercial banks and thrift institutions are permitted to offer the same range of services, they should operate subject to the same ground rules. And one of the most important rules deals with the holdingof reserves against accounts subject to third-party payments. Imposition of comparable deposit reserves on all banks and thrift institutions is controversial. Whether uniform 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 - With this background in mind, our recommendations with respect to deposit liability powers and reserves are as follows:

For federal thrift institutions, checking account, third-party payment powers, credit cards, and N.O.W. accounts will be available to all customers, individual and corporate.

For national banks, savings 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 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 (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. This in effect breaks the link which now exists between Federal insurance and mandatory membership in the FHLB system. A thrift institution should be allowed to obtain Federal insurance without having to join the federal system as is the case for commercial banks.

N.O.W. deposits will be subject to the same range of reserves as demand deposits. However, the Federal Reserve Board, after consultation with the Federal Home Loan Bank Board, 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 accounts will range from 1 to 5 percent and those for time accounts will range from 1 to 10 percent.

Issue 3

EXPANDED LENDING AND INVESTMENT POWERS

Background

Removal of interest ceilings and 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

7

income and enhancing liquidity through portfolio diversification -- objectives that can be achieved only through acquiring 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 any 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 housing credit. 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.2/

The possibility that commercial banks may fill the gap will be enhanced if current restrictions 3 / 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.

2/ A recent study of state-chartered S&Ls in Texas which currently have consumer loan powers revealed that mortgage lending in Texas was enhanced by the ability of state S&Ls to make consumer loans. The state-chartered institutions experienced a much faster growth than did federal S&Ls and, hence, had more money available for mortgage loans. As expected, the amount devoted to consumer loans was quite small.

3 / In addition to numerous restrictions in the real estate lending law (12 USC 371), national banks are limited in their real estate lending to an amount equal to 70% of their time and savings deposits or 100% of their capital and surplus, whichever is greater.

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 covered later.

RECOMMENDATIONS - With this background, our recommendations relating to lending and investment powers are:

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 welfare and development investments on loans for, as well as direct investment in, residential and related properties, including a participation in rental income or a share of capital gains on the sale of property, but with this so-called leeway authority not 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 guidelines 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 community welfare loans; and

(7) Continue the acquisition of a full range of U.S. Government, state and municipal securities.

National banks will be granted:

(1) Powers to make real estate loans without present restrictions mentioned in footnote 3 above.

(2) A leeway authority, not exceed 3 percent of total assets, for community welfare and development investments on the same conditions as thrift institutions.

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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 over-zealously protecting existing firms by restricting entry into the field via new charters.

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.

RECOMMENDATIONS - Therefore, our recommendations are as follows:

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 "Federal Savings and Loan Associations" or "Federal 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 grandfather their life insurance, equity investments and corporate bond investments. These equity and corporate investments may be no greater than levels determined by their average percent of assets for the 5-year period of 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 previously had been insured by the FDIC.

The Federal Home Loan Bank Board will be given authority with regard to the regulation of securities and reporting requirements under the Securities Exchange Act of 1934 to carry out fully the Board's responsibilities in the regulation of stock thrift institutions.

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 credit unions 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 operation of the vast majority of credit unions. Although there are credit unions that would prefer to offer the services of "mutual savings 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" would be one method to solve this problem.

RECOMMENDATIONS - With this as background, our recommendations with respect to credit unions are:

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 funds will be obtained through subscriptions by credit unions wishing to join. The Fund is to be administered by the National Credit Union Administration (NCUA).

Services which credit unions provide will also be expanded although such additional powers must be consistent with their special tax-exempt status.

(1) Principal loan terms will be lengthened from five to seven years in the case of unsecured loans and from ten to twelve years in the case of secured loans.

(2) Lines of credit would be pemitted to account for different credit ratings and for individual circumstances of

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different members, thereby permitting more flexibility in the making of loans.

(3) Authority would be given to credit committees to offer pre-approved credit programs or lines of credit. This would permit the small credit union member to plan better his financial affairs with greater certainty. Credit committees do not presently have authority to offer these lines of credit.

(4) Credit unions would have authority to issue share certificates with varying dividend rates and varying maturities subject to regulations promulgated by the Administrator. This provision would permit credit unions to issue certificates which would attract their members' long-term savings and increase availability of credit union funds.

(5) The Administrator of the NCUA would be given authority to permit loans to be made at a rate of interest exceeding the maximum one percent per month. This provision would give the Administrator standby authority to assure that loans would be available to the small credit union member during periods of high interest rates.

(6) Credit union directors and members of supervisory or credit committees would be permitted to have their loans secured by collateral not otherwise encumbered or pledged and approved by the credit committee. At the present time, credit union shares are the only collateral permitted by law on loans to these individuals. This provision would encourage a greater participation in credit union affairs by removing some of the strictures on directors and committee members, while retaining safeguards for the credit unions.

(7) The present restriction on the payment of dividends to annual, semiannual or quarterly payments, would be changed to conform to modern corporate practice by permitting payment of dividends at such intervals as the Board of Directors may authorize.

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 the many government 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 administered rates have kept costs down, which they haven't the consequence has been decreased funds available for housing.

RECOMMENDATIONS - Therefore, our recommendations are as follows:

The National Housing Act will be amended to remove statutory and administrative rate ceilings on all Housing and Urban Development insured mortgages. Interest rates for mortgages and loans insured under the Act would be at the rate agreed upon by the mortgagee and mortgagor. 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.

The authority of the Administrator of the Veterans Administration to set interest ceilings on VA guaranteed or insured loans would be rescinded. The Administrator would retain the authority to determine the interest on loans made directly from federal funds to certain veteran purchasers.

Issue 7

TAXES

Background

In light of the expanded powers to be granted thrift institutions and the overall goal of allowing all financial institutions to compete on equal footing, the basic objective of the income tax proposals is a uniform tax formula. 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 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 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 such changes are made, conforming amendments will have to be made to a number of other provisions of the Internal Revenue Code which currently reflect the difference in 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 viewed as full compensation to thrift institutions for the loss of tax benefit resulting from eliminating the special bad debt reserve deduction.

RECOMMENDATION - With this as background, our recommendations include:

The special reserve provisions applicable to thrift institutions will be eliminated and all thrift institutions will compute reserve additions under methods similar to the ones 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.4/

4/ For purposes of the credit, qualifying residential mortages 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 multifamily 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 multifamily 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

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 been calculated so as to give thrift institutions full compensation, in fact, overcompensation, for the tax benefit they would have received 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[5/] and provide an incentive to other lenders to increase their level of investment in residential mortgages, the credit will be multi-level. For institutions which have invested over 70% of their assets in residential mortgage loans, a tax credit (not a deduction) equal to 3.5% of the residential mortgage interest income will be allowed. If less than 70% 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% of their assets in residential mortgages (the average for mutual savings banks) would receive a 3.0% tax credit; a 40% institution would receive a 2.5%; a 25% institution would receive a 2.0%; and a 10% institution 1.5%. Individuals would receive a flat 1.5%.

By structuring the tax credit in this manner, a double incentive for residential mortgage lending is provided as the mortgage portfolio of an institution is increased. Not only does the institution qualify for a larger tax credit, but also that credit applies to the entire interest income from residential mortgages. Thus there is an ever-increasing incentive for higher investment in mortgages. Furthermore, if an institution has less than 10% of its assets devoted to mortgages, there is a tremendous incentive to reach at least the 10% level. For example, if a bank has only 8% in

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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. The Federal National Mortgage Corporation and the Federal Home Loan Mortgage Corporation will not be eligible for the tax credit.

5/ 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.

mortgages (the national weighted average), there would be a tremendous incentive to increase to the 10 percent investment level. Additionally, a bank will not want its mortgage portfolio percent to fall. Therefore, as a bank's size increases, there is incentive to increase mortgage assets at least as fast as its overall growth.

The benefit to various groups from this tax credit, based on estimated 1973 residential mortgage interest income, will be approximately:

	Million $
Savings and Loan Associations	$483
Mutual Savings Banks	120
Life Insurance Companies	47
Commercial Banks	13
Finance (mortgage) Companies	13
Individuals	9
	$685

This represents a net loss to the Treasury of approximately $154 million a year since the bad debt provisions applicable to thrift institutions 6/ are to be eliminated, and their elimination will result in a gain to the Treasury of about $531 million annually ($471 million from S&L's and $60 million from MSB's).

CONCLUSION

In closing, Mr. Chairman, I would like to address specifically four criticisms which have been levied against these proposals. We do not wish to duck these tough questions because we considered them at great length while arriving at our recommendations. The criticisms most often raised are: (1) These recommendations will bring an end to specialized institutions. (2) A cut-throat, interest-rate war will immediately develop and threaten the safety and soundness of all banks and thrift institutions. (3) These recommendations will completely kill the housing industry. (4) No affected industry group endorses the entire package; therefore, the recommendations stand no chance of Congressional passage.

6/ The $531 million figure represents the tax value of the current bad debt reserve deduction based on a percentage of taxable income deduction of 43 percent, the percentage which under current law would be applicable for 1976. The 43 percent figure was used to compute the amount of the mortgage interest tax credit necessary to compensate S&L's for the loss of the bad debt reserve deduction.

Mr. Chairman, I would be less than candid if I said that these were easy questions, and we recognize that there will be differences of opinion; but the fears which underlie some of the criticisms are not new. They are predictable reactions from the various interested groups. Each criticism is designed not with the hope of eventually designing a more efficient financial system, but rather with a hope of preserving a particular, exclusive franchise that one group has versus another. Although much emotion can be attached to each of these criticisms, calm and thoughtful deliberation reveals the fallacy in each.

Typically any change involving various competitive interests is resisted because people are comfortable with the familiar and each industry is jealous of its exclusive franchises. Although many recognize that our present system is inadequate in many ways, they summarily conclude that "The Devil we know is better than the Devil we don't." Ironically, each industry is ready to embrace "unknown devils" when they entail new powers for their industry, but are horrified when new powers are given to their competitors. The Congress and the Administration must work together to determine the changes which will serve the best interests of the American people -- the savers, the borrowers, and the financial institutions.

With respect to the first issue -- the end of the specialized institution -- I should point out that we are not forcing any institution to offer any of the improved services. We are merely allowing institutions -- primarily the specialized thrift institutions -- to provide fuller services to their communities. We are not forcing any specific package or service on any institution. If institutions offer expanded services, it will be because of demand from the public or increased competition from rival institutions. The system we now have is one of "forced specialization" -- a system which is inflexible and does not allow institutions to adjust adequately to economic change. Who is to say that the Federal Government can design a perfect "specialized institution" when in fact specialization should come by natural competitive forces and from the need to adapt each institution to fit its own community's needs. Those who contend that all banking and savings institutions will soon be identical are arguing from emotion rather than fact. Specialty boutiques can compete against large department stores, specialty grocery stores compete against the supermarkets and specialty investment firms compete against the large investment banking houses. Is the banking system different? Of course not. There will always be a demand for the small and personal or specialized bank or savings and loan association. Homogenization of the U. S. banking system will not occur, just like it has not occurred in any other U. S. industry.

A second criticism is that the removal of Regulation Q will result in a furious cut-throat, interest-rate war. Many harken back to the days of the Great Depression and recount how the banking system collapsed. Interest rate competition in the '30s did not cause bank failures; poor investments did. Other people will contend that our recent experience with the 4-year consumer certificate of deposit -- dubbed a "wild card" -- was a total failure. Nothing could be further from the truth. In fact, had it not been for the ability of S&L's and banks to pay market rates on 4-year certificates, their loss of deposits would have been astronomical. In fact, after the initial introduction of these certificates with rather high deposit interest rates coupled with extravagant advertising, the banking and savings industry matured rather quickly. Contrary to what some people would have us believe, the rates paid on consumer certificates of deposit did not run wild. A survey of 190 of the largest banks reveals that 20 percent of these certificates were issued by them at a rate under 5-1/2 percent; that about 30 percent were issued by them under 7 percent; and that 85 percent were issued under 7-1/2 percent. Further, a survey of 300 of the smaller banks shows that 50 percent of the consumer certificates were issued by these banks at a rate under 5-1/2 percent and about 85 percent were issued under 7-1/2 percent.

Thus, I simply do not believe the argument that bankers must be protected from each other or regulated and restrained to the lowest common denominator of management competence. Should the small, unsophisticated savers be penalized for the potential abuses of a few bank and savings and loan managers? We believe that consumer-savers should receive the highest possible interest rate return on their savings that the market will bear, and that any management incompetence should be dealt with on a more selective basis by the regulatory agencies.

A further criticism of most changes in the financial system, whether it be a small increased power here or a change in a tax provision there, is that such changes will have a disastrous effect on housing. No one issue occupied more of our time than the problem of the flow of funds to this sector. All of us appreciate the importance of housing to our country's well-being. However, the people who raise fears about what these recommendations may do to housing are the same ones who lament over the poor state of housing and housing finance in our country today. Our in-depth studies conclude that even without any increased tax incentives for housing, there would be minimal, if any, adverse impact on housing finance from these recommendations. However, with the addition of a tax credit which will be available to all institutions and individuals, there can be little doubt that not only will there be more money available for housing finance but more importantly that such money will be more constant and predictable and that we will be less likely to have the stop-and-go of mortgage funds that we have witnessed three times in the past seven years.

Why will the President's recommendations have a positive effect on housing? 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. The reduction, however, would be small. Elimination of interest rate ceilings for commercial banks may increase competition for savings and loan associations and mutual savings banks and thus might contribute to the negative effect, but this is unclear.

However, 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. Additionally, banks will be forced by their S&L competitors who can now offer full family financial services to make mortgage loans more aggressively.

Finally, great ease and higher rewards for personal savings should induce greater savings which in turn should provide more funds for all financial intermediaries.

It is believed that the net effect on mortgage flows of all these nontax factors is 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 during periods of financial restraint.

A fourth criticism of our recommendations is that since no group supports the entire package, it stands little chance of Congressional passage. Almost by definition, the fact that each group likes much of our package but will not endorse the entire package reflects the fact that it is a balanced approach to the problems of all groups. However, each group may feel that it can get a better deal if it opposes the package as submitted. Nevertheless, it is critical that the legislation be viewed as a whole, and by doing so, the ultimate beneficiary will be the consumer because he will be provided with better financial services at a lower cost.

In closing, Mr. Chairman, I think it is evident that many thousands of hours have been spent on the formulation of a coordinated approach to banking reform, not only by the Hunt Commission, but also by the Administration. We have evidence of the need for change, we have completed the necessary studies to adopt meaningful change, and I suggest that the time for that change is now.

STATEMENT BY

SECRETARY OF THE TREASURY GEORGE P. SHULTZ

Before

The White House Conference on Export Expansion

Oct. 11, 1973

2

Thank you very much Peter. Our next speaker is the Honorable George P. Shultz, who is Secretary of the Treasury, and in addition, the Chairman of the Councils on International and Economic Policy. He has just returned from Nairobi, Moscow and a good many other points and will speak to us on the "World Economy, Trade, Monetary Reform and Exchange Rates."

Secretary Shultz:

Fellow Travelers, as I look around the room, I have seen some of you in hotel lobbies in Tokyo and goodness knows where. I will advance two propositions and then move on from those propositions to some comments about what, it seems to me, government can do and is trying to do in the export area, and I invite your comments and criticisms on them. And then I will put forward some things, it seems to me, you could do.

My two propositions are very simple, and I trust everybody will agree with them. The first is that our goods, by and large, are now competitive in world markets, which is not a statement we could have made two or three years ago. In talking not only to American businessmen, but German businessmen and Japanese businessmen and others, the sort of subjective evaluation is that we are at the moment competitive in world markets and I think that is clearly, in large part, because of the devaluations. But it also is because, at least as far as I can see, our labor costs and price performance in the last couple of years have been relatively good, and so these two things added together have helped us a great deal. I might just note in passing that our present inflation, as you all know is highly concentrated in the food and energy areas. Eighty percent of the wholesale price index rise in the last year is attributable to those two categories, both sharply affected by International Markets. In other words, the balance of our goods and services have not been inflating in price nearly so fast as the average rate of inflation.

My second proposition is that it is our job to keep the situation this way.

Why do we export? Not because we want to give our goods away or send them away, but because we want to import, and if we don't export we can't pay for our imports.

3

So those are the two basic propositions I will advance. Let me now talk about what it seems to me government can do about exports and I will then offer some considerations for you.

Well, first of all we have the Ex-Im Bank. I believe that Henry Kearns has done a great job in developing the bank, expanding its operations, getting us into a competitive credit position. That's been very important and will continue to be very important. I might say that, to a certain extent, making ourselves competitive in this area is needed in order to carry on negotiations that will avoid a kind of credit war that we don't care to get into. But if we aren't sort of in this picture in a strong way we don't have any leverage in negotiations to try to get an understanding with others about what kind of credit policies are going to be followed.

The Ex-Im Bank has developed a discount facility. It has worked out cooperative offshore finance arrangements. It has developed the preliminary commitment idea and has acquired the reputation for giving prompt, decisive responses. It has brought a lot more banks into the system so that there's more knowledge spread around. So, I think that's no. 1 that government can do: Maintain a good, strong Ex-Im Bank.

We have the DISC that you know about that should be of help. We have been working in the Treasury and I think we have probably been a little slow on the draw here, but we have been working on the business of trying to alert the business community more fully than in the past to bidding opportunities generated by the activities of the International Financial Institutions, since we're more or less on the inside of what's going on there. We know that stream of activity, but we think that we should do as good a job as we possibly can in letting you know what those bidding opportunities are. Nowadays, I think, going back to the first proposition, it is really possible to bid successfully against strong competitors, and we hope that people will do it.

Additionally, we look to improve our position through multi-lateral trade discussions. These are dependent on the successful passage of the Trade Bill. There also are bilateral trade discussions under way, and, of course, we have the new monetary negotiations under way. I want to say a little bit particularly about the latter, but let me say two things about these two negotiations in combination. Based on our own analysis of this situation, and at the urging of many of the people that I see seated here, we are taking the view in these negotiations that we should be tough negotiators, and we're in there pitching for the U.S. interests very hard. Now that does mean that we forget that we must be good citizens of the world. and that if a deal is going to be good for us it's got to be good for the other side of the bargain too. But, we're out there slugging away and we intend to do that and we look for your help in doing that and your advice. I know Bill Eberle has some ideas on how to organize working groups to help him in these negotiations.

I would make this general point to you: going to these international meetings and taking a tough unpopular stand isn't pleasant. Everybody likes to get up in these meetings and make a speech that everyone cheers. So if a Government spokesman makes a speech in which he knows he is not going to be popular as a result, but nevertheless believes it is the right position for our country, it's most helpful if you support him. Now I don't mean that you should fail to criticize, particularly here at home, or that anybody isn't free to take whatever position they damn well want to. But other things equal, I thinks it's helpful to give your government a little support, and particularly not to go to an international meeting where we're taking a tough position and sort of play yourself off against your government as the good guy. Here's the government, they're the bad guys, they're tough. Here I am the big business-man, multinational corporation, I do business all over thw world, so I'll make myself look like a sweet fellow by under cutting my own government. That's a hell of a way to do things. And, to the extent that you want us to be strong and tough people, it is very much against your interest to do that. I think that we should somehow work out a pattern where we get people's ideas, criticisms and so on as much as we can before the event, by setting up advisory panels and working groups to do this. Unless you feel very put out by the position the government is taking, I think you ought to give us a little break and support it. It's very easy to give the store away; we don't want to do that. We want to be tough, and we need your help.

Now, the second point that I would make is related to our work on monetary negotiations. We seek a system that will not allow us again to get in the position that we got in increasingly through the 1960s where the dollar was way overvalued, and essentially priced our products out of the market. We seek a system that has adjustment in it. Here again, we're fighting hard on this point. It's very, very tough going. We're seeking a system that has flexibility in it, that has adjustment in it, th has some backbone to make adustment take place, and I think we're making some real headway on that, if we'll just be tough and stay in there. Now what this will yield, I think, is a situation where the dollar will not again get itself way overvalued. People will not be able to just devalue against us continuously as happened in the post war period. So this is my general point: if you are competitive now and you do a good job you ought to be able to be competitive five years from now. And I make this point particularly because it seems to me, and I don't claim to know a lot about the export business as a business, but it seems to me the essence of it must be that, you have markets out there that you want to develop, and it takes a lot of investment to do it and so you have to make a plan, you have to be able to think in reasonably long range terms. If you are faced with the prospect that over a period of six or eight years the dollar is just going to slip away from you in terms of being overvalued, well, that's not a very good planning base. I think the new system will give you a planning base that will be helpful to you. Well, those are sort of a smattering of things that government is doing, at least that I am involved in.

Now let me just say a word or two about some things that I think you should think about. First of all, and this is always advanced and has some of the coloration of a bromide, productivity has just got to be the name of the game here in maintaining our position. And that is one reason why, in looking at the boom in plant and equipment spending right now, at least I am one of those who fails to get alarmed about it. It seems to me that we should have the attitude that it's about time and let's keep it going. This is the way we're going to get our productivity up. This is the way, basically, we're going to keep our costs under control and that is a subject, I think, from the standpoint of exporters, that deserves an awful lot of attention. It provides the productivity base in our own country.

The second point I would make to you is that we have a big affluent market and we know that to a very great extent it has been a fine target market for other people, just as it's a fine market for American companies. So it's an attractive market to think about and come into. Well, it looks to me as though there are now, more than ever before in the history of the world, other large, affluent markets, and to the degree that as domestic producers we have become accustomed to catering to that kind of a market, maybe we have now got something that can be an advantage to us just out of our natural training, so to speak.

Now third is the question of investment versus exporting. I would submit again, going back to the basic point about our fundamental competitiveness, that it seems to me that this applies very strongly to investment decisions too. If our position is strong, if our monetary negotiations and trade negotiations can take place in a way that can give you a decent planning base, then it seems to me this suggests that the margin of decisions ought to move over in the direction of investment in the U.S. and export, rather than the other way around. I would particularly emphasize this in a world where investment in other countries just has to look less secure than in the U.S.

One of the refrains that I have picked up almost everywhere I have gone is a dissatisfaction with the willingness of the American businessman to try to come into that foreign market and adapt himself to that market. The Germans, the Japanese, the French say that they sense less than a really active interest in adapting the American product to the particular characteristics of the foreign market as an export proposition. They think our American businesses are very good at coming over, investing, and putting a plant there and then on the basis of that producing prodigiously. But the export side does not impress them as much. These days there are all sorts of complaints about deliveries and their feeling is that an American manufacturer faced with the proposition of "I've got two deliveries to make on X day; I've only got one of the product to deliver on that day; so I'll deliver it domestically." That I suppose has to be a matter of business judgment all the time, but certainly from the standpoint of building the export business, this idea of reliability in deliveries must certainly be important.

Well, my final point is that I think that there is great room for spectacular success in exports for businesses and it happens also to be one of those areas where your success is very much in the national interest. And I say this mainly for three reasons: two are substantive and the other is kind of psychological. We are certainly going to do a lot of importing. We're going to have to pay for those imports through exports. If we don't, what are we going to have? We're going to have, in one way or another, a further devaluation of the dollar. We're determined not to have that. We don't think it's good for us. We think that it has been a good thing up to a point, but the point has been reached and we have no intention of any further devaluation of the dollar at all. To the extent that it happens, it poses real inflationary problems for us and so that is one reason. A second is the great need I think we have to provide the foreign exchange needed to keep a reasonable level of aid going, and to be responsible in that sense.

It's essential also to have a strong national defense system, and if we can't sustain exports that can give us foreign exchange, we're not going to be able to sustain that position, so I think that's a second set of reasons why your success is very much in the national interest.

And finally, we have gone through a rather traumatic period here in the foreign exchange markets and we have fought to get the dollar valued more realistically. We have paid a price and the price is that there are questions about the dollar and what is happening to the dollar. My own opinion is that the dollar is fundamentally very strong. I have had the pleasure of offering to bet my fellow finance ministers individually, with respect to their currencies, that the dollar will be stronger next year than it is now and I don't get any takers. I think that is what the market will lead us to. At the same time, we recognize that foreign trade, as compared with most countries, is not a large element in our total picture. Nevertheless it is a good sized amount of money and it is the balance in trade and payments that affects the exchange markets. That balance is heavily dependent on exports. A strong position will generate for us the feeling that that dollar is strong and that it's a good reliable currency.

In closing, we look to you for your help in making your contributions to our thinking about Government policy, in working with us in implementing it in these negotiations. We want to feel that where we see problems that we think could be met in the private sector, we can talk to you about them and you in turn can come to us. Working together individual businesses and the nation as a whole can benefit together.

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

8

FOR RELEASE 6:30 P.M. November 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 November 8, 1973, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing February 7, 1974		:	26-week bills maturing May 9, 1974	
	Price	Equivalent annual rate	:	Price	Equivalent annual rate
High	97.977 a/	8.003	:	95.975 b/	7.962%
Low	97.915	8.248	:	95.943	8.025%
Average	97.953	8.098 1/	:	95.962	7.987% 1/

a/ Excepting 3 tenders totaling $1,470,000; b/ Excepting 1 tender of $10,000
Tenders at the low price for the 13-week bills were allotted 10%.
Tenders at the low price for the 26-week bills were allotted 48%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 36,790,000	$ 26,790,000	:	$ 23,130,000	$ 6,130,000
New York	2,840,005,000	2,021,505,000	:	3,217,400,000	1,574,395,000
Philadelphia	21,735,000	21,735,000	:	30,760,000	4,865,000
Cleveland	27,050,000	27,050,000	:	123,560,000	13,225,000
Richmond	27,530,000	27,530,000	:	22,495,000	7,755,000
Atlanta	17,365,000	17,365,000	:	11,240,000	9,430,000
Chicago	186,230,000	161,230,000	:	351,795,000	100,310,000
St. Louis	37,745,000	35,745,000	:	39,220,000	16,390,000
Minneapolis	21,885,000	21,885,000	:	20,570,000	4,570,000
Kansas City	42,555,000	40,655,000	:	23,790,000	18,240,000
Dallas	38,120,000	27,120,000	:	31,540,000	9,040,000
San Francisco	96,420,000	71,420,000	:	347,095,000	35,805,000
TOTALS	$3,393,430,000	$2,500,030,000 c/		$4,242,595,000	$1,800,155,000 d/

c/ Includes $277,840,000 noncompetitive tenders accepted at the average price.
d/ Includes $134,550,000 noncompetitive tenders accepted at the average price.
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 8.38 % for the 13-week bills, and 8.44 % for the 26-week bills.

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9

FOR IMMEDIATE RELEASE November 5, 1973

CITIZENS COMMISSION ON PRIVATE PHILANTHROPY AND PUBLIC NEEDS TO BEGIN STUDY

Secretary of the Treasury George P. Shultz today issued the following statement for himself and Chairman Wilbur D. Mills of the House Ways and Means Committee;

Our society has never been more affluent; but the private educational, cultural, research and welfare institutions that give it much of its strength and quality are in dire straits. Many are confronted by large deficits and often by threats to their very existence.

The readiness of the individual citizen to join with others to meet recognized community needs has been one of the nation's greatest assets. It is in danger of being lost, and continued erosion would pose a serious threat to the vitality of our whole society.

John D. Rockefeller 3rd initiated the formation of a broadly representative citizens group to examine the balance between public and private effort and to develop recommendations on steps that might be taken to strengthen the private, non-profit sector.

The formation of the Commission has been encouraged, as a joint effort, by Chairman Wilbur D. Mills of the Committee on Ways and Means, as well as Secretary of the Treasury George P. Shultz and Deputy Secretary William E. Simon, and has been assured their cooperation.

John H. Filer, Chairman of Aetna Life and Casualty Company, agreed to serve as Chairman of this Commission on Private Philanthropy and Public Needs, and Leonard L. Silverstein, Washington Attorney with the firm of Silverstein and Mullens will be Executive Director. Attached is a list of members of the Commission.

S-320

The Commission will be a private, non-profit research and educational organization. It will be aided by a distinguished panel of experts including economists, sociologists, tax attorneys and specialists in non-governmental organizations.

Its work will include examination of the following issues:

1. Policy considerations respecting the present system of incentives to private philanthropic giving.

2. Specific considerations relating to the present treatment of private contributors.

3. Specific considerations relating to the present methods of supervising, regulating and classifying charitable institutions.

4. Impact of death tax considerations upon private philanthropy.

5. Alternative means of achieving the results sought by present structure of private philanthropy in the United States.

It is anticipated that a report and recommendations will be ready for public release by December, 1974.

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Questions should be referred to the Commission's Executive Director, Leonard Silverstein - Telephone Number - 833-8810.

COMMISSION ON PRIVATE PHILANTHROPY AND PUBLIC NEEDS

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10

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Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

12

FOR IMMEDIATE RELEASE November 5, 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 15, 1973, in the amount of $ 4,193,285,000 as follows:

91-day bills (to maturity date) to be issued November 15, 1973, in the amount of $ 2,500,000,000, or thereabouts, representing an additional amount of bills dated August 16, 1973, and to mature February 14, 1974 (CUSIP No. 912793 SY3) originally issued in the amount of $ 1,806,875,000 the additional and original bills to be freely interchangeable.

182-day bills, for $ 1,800,000,000, or thereabouts, to be dated November 15, 1973, and to mature May 16, 1974 (CUSIP No. 912793 TM8).

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 12, 1973. Tenders will not be received at the Treasury Department, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

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

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on November 15, 1973, in cash or other immediately available funds or in a like face amount of Treasury bills maturing November 15, 1973. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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

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

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

13

FOR IMMEDIATE RELEASE November 5, 1973

TREASURY BILL AUCTIONS

The Treasury plans to raise $1.2 billion of new cash by selling a short strip of bills totalling $1.1 billion and by raising $100 million through an addition to the amount of bills auctioned on Monday, November 12, 1973.

The strip of bills will be auctioned on Friday, November 9, 1973, for payment on November 14, 1973. It will consist of $100 million additions to bills maturing each week from November 23, 1973, through January 31, 1974. This auction, combined with the addition of $100 million to the regular auction on Monday, November 12, will bring all weekly bill maturities to $4.3 billion. None of the bills may be paid for by credit to Treasury tax and loan accounts.

This limited short-term financing is a by-product of the recent welcome improvement in the international payments position of the United States. This improved payments position has been reflected in reduced holdings of Treasury debt by some foreign monetary authorities. A portion of this reduction, which is in itself desirable, may give rise to some redemptions of special U. S. Treasury securities held by those monetary authorities. In the absence of an ability to borrow directly from the Federal Reserve Banks (the authority for which expired on October 31 and has not yet been extended by the Congress), a limited addition to Treasury cash balances is now required to prudently prepare for this eventuality.

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

14

FOR IMMEDIATE RELEASE November 5, 1973

TREASURY OFFERS $1.1 BILLION STRIP OF BILLS

The Treasury Department, by this public notice, invites tenders for additional amounts of 11 series of Treasury bills to the aggregate amount of $1,100,000,000, or thereabouts, for cash. The additional bills will be issued November 14, 1973, will be in the amounts, and will be in addition to the bills originally issued and maturing, as follows:

Amount of Additional Issue	Original Issue Dates	Maturity Dates	CUSIP Nos.	Days from Nov. 14, 1973 to Maturity	Amount Currently Outstanding (in millions)
100,000,000	May 24, 1973	Nov. 23, 1973	912793 SE7	9	$4,202
100,000,000	May 31, 1973	Nov. 29, 1973	912793 SF4	15	4,205
100,000,000	June 7, 1973	Dec. 6, 1973	912793 SG2	22	4,210
100,000,000	June 14, 1973	Dec. 13, 1973	912793 SH0	29	4,192
100,000,000	June 21, 1973	Dec. 20, 1973	912793 SJ6	36	4,203
100,000,000	June 28, 1973	Dec. 27, 1973	912793 SK3	43	4,204
100,000,000	July 5, 1973	Jan. 3, 1974	912793 SS6	50	4,202
100,000,000	July 12, 1973	Jan. 10, 1974	912793 ST4	57	4,204
100,000,000	July 19, 1973	Jan. 17, 1974	912793 SU1	64	4,203
100,000,000	July 26, 1973	Jan. 24, 1974	912793 SV9	71	4,201
100,000,000	Aug. 2, 1973	Jan. 31, 1974	912793 SW7	78	4,212
1,100,000,000			Average...	43.1	

The additional and original bills will be freely interchangeable.

Each tender submitted must be in the minimum amount of $110,000. Tenders over $110,000 must be in multiples of $55,000. One eleventh of the amount tendered will be applied to each of the above series of bills.

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Friday, November 9, 1973. Tenders will not be received at the Treasury Department, Washington. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. A single price must be submitted for each tender. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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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 these additional issues at a specific rate or price, until after one-thirty p.m., Eastern Standard time, Friday, November 9, 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 $220,000 or less (in amounts as set forth in the second paragraph) 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 14, 1973.

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. Purchasers of a strip of the bills offered hereunder should, for tax purposes, take such bills on to their books on the basis of their purchase price prorated to each of the 11 outstanding issues using as a basis for proration the closing market prices for each of the issues on November 14, 1973. (Federal Reserve Banks will have available a list of these market prices, based on the mean between the bid and asked quotations furnished by the Federal Reserve Bank of New York.)

Treasury Department Circular No. 418 (current revision) and this notice, 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

15

FOR IMMEDIATE RELEASE November 6, 1973

UNDER SECRETARY VOLCKER RECEIVES FELLOW AWARD OF NATIONAL ASSOCIATION OF BUSINESS ECONOMISTS

Treasury Under Secretary for Monetary Affairs Paul A. Volcker has received the Fellow Award of the National Association of Business Economists.

The award citation reads:

> "In recognition of his outstanding professional contributions in the field of business economics and for his leadership among business economists of the nation, the National Association of Business Economists confers the title of Fellow upon Paul A. Volcker."

The award, signed by NABE President Roy E. Moor, was presented to Under Secretary Volcker on October 26, 1973, by Ralph E. Burgess, Executive Secretary-Treasurer of the NABE, and George W. James, Sr., Vice President for Economics and Finance, Air Transport Association, a former president of the NABE.

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16

November 6, 1973

FOR IMMEDIATE RELEASE

WITHHOLDING OF APPRAISEMENT ON
PICKER STICKS FROM MEXICO

Assistant Secretary of the Treasury Edward L. Morgan announced today a withholding of appraisement on picker sticks from Mexico pending a determination as to whether they are being sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended. Picker sticks are made of solid or compressed laminated hardwood and are used in textile weaving machines.

This decision will appear in the Federal Register of November 7, 1973.

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

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

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

During the period of January 1972 through May 1973, imports of picker sticks from Mexico were valued at approximately $25,000.

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Department of the TREASURY
OFFICE OF REVENUE SHARING
WASHINGTON, D.C. 20220

NEWS

TELEPHONE 634-5191

THE DEPARTMENT OF THE TREASURY 1789

17

FOR INFORMATION CALL (202) 634-5248

FOR RELEASE TUESDAY, A.M. NOVEMBER 6, 1973

AUDIT STANDARDS ISSUED TODAY BY OFFICE OF REVENUE SHARING

Audit and accounting information for use by the more than 38,000 recipients of general revenue sharing funds was issued by the Treasury Department's Office of Revenue Sharing today.

The new booklet, entitled AUDIT GUIDE AND STANDARDS FOR REVENUE SHARING RECIPIENTS, contains recommendations for procedures which may be used by recipients as they audit their shared revenues, and interest earned from investing those funds. Sample forms are included to guide those making regularly - scheduled audits which include revenue sharing.

"The Guide is designed to assit recipient state and local governments," according to Graham W. Watt, Director of the Office of Revenue Sharing. "It was prepared with the help of national associations representing the public accounting profession, municipal finance officers, state auditors, and several federal agencies including the United States Commission on Civil Rights and the Government Accounting Office.

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The Guide does not propose, nor does the Office of Revenue Sharing require, that any recipient change its present audit procedures so as to conform with the standards issued today. Rather, the document is intended to provide information about the minimum requirements for an audit of revenue sharing funds which will be acceptable to the U.S. Department of the Treasury. These same standards will be used by the Office of Revenue Sharing as it performs audits of the use of shared revenues by the recipient governments.

Governments are encouraged to provide information to the Office of Revenue Sharing in the form suggested by the Audit Guide, however, since it is the intent of the Treasury Department to rely as much as possible on audits of recipient governments that are performed on a regular basis by state and local government auditors and by independent public accountants.

Revisions will be made in the Audit Guide as experience shows need for change.

In the first year of the general revenue sharing program, approximately $10 billion has been distributed to states, counties, cities, towns, townships, Indian tribes and Alaskan native villages throughout the United States. The State and Local Fiscal Assistance Act that authorized general revenue sharing was signed by President Nixon on October 20, 1972.

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18

Consumer Questions on Banking, Saving and Loan Associations, and Other Institutions

Transcript of a Seminar on Financial Reform

Department of the Treasury
1973

Consumer Questions on Banking, Saving and Loan Associations, and Other Thrift Institutions

Transcript of a Seminar on Financial Reform

Department of the Treasury
1973

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20402 - Price 85 cents

Consumer Questions on Banking, Credit, and Financial Reform

This is a record of a Consultative Seminar on Financial Reform, held September 19, 1973, at the Old Executive Office Building, in Washington, D. C. It is intended only for discussion purposes, to air consumers' questions about financial reform, and provide initial answers to these questions.

Other pertinent information on the subject of financial reform includes:

1. "Recommendations for Change in the U. S. Financial System" (September 24, 1973; 44 pages) ;*
2. "Financial Institutions Act of 1973" (October 11, 1973; 56 pages, plus summary, analysis and reference table) .

*Copies are available from the Superintendent of Documents, U. S. Government Printing Office, Washington, D. C. 20402.

NOTE: For the sake of brevity and clarity, this transcript has been slightly edited, and administrative and nonsubstantive portions have been deleted. Answers marked simply "A," were inserted afterwards.

Speakers

GEORGE P. SHULTZ, *Secretary of the Treasury*
JAMES LYNN, *Secretary, Housing and Urban Development*
WILLIAM E. SIMON, *Deputy Secretary of the Treasury*
VIRGINIA KNAUER, *Special Assistant to the President for Consumer Affairs*

Panel Members

HOWARD BEASLEY, III, *Assistant to the Deputy Secretary, Department of the Treasury*
JACK W. CARLSON, *Assistant to the Director, Office of Management and Budget*
RUDOLPH PENNER, *Deputy Assistant Secretary, Department of Housing and Urban Development*
LEE RICHARDSON, *Director for Education and Finance, Office of Consumer Affairs*

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Introductions

Mrs. Knauer: Ladies and Gentlemen, I wish to welcome you to this Consultative Seminar on Financial Reform. It is with great pleasure that I introduce our host, the Secretary of the Treasury, the Honorable George Shultz.

Statement of George P. Shultz Secretary of the Treasury

Secretary Shultz: This is certainly an impressive group. I have known a few of you over the years and met some of you I think when we were planning Phase II. We had a meeting of this kind back then, and had your views and they're always helpful. I appreciate them.

You are in the hands of real experts here today with Bill Simon and Jim Lynn and their various people, let alone Virginia Knauer. I don't want to infringe on their time or on their subject matter, which I think is of great importance to consumers as it is of great importance to all Americans.

I want to set the stage for a discussion of financial reform with a descriptive statement about what has been happening in trying to forecast what will be happening. But I think it is impressive to look down the list of commodities and price increases which produced this increase in the Wholesale Price Index.

Commodity Prices Down

Now, the interesting thing is the extent to which those prices have come down since then. In the Treasury, we keep track of commodity prices almost as closely as we do exchange market developments or bond market developments these days. If you take the maximum price of these commodities since last June and then each day look at the current price and compute a percentage change from a maximum price, a rather startling picture develops.

The maximum price of soybeans was $12.20 per bushel; since that time the price has fallen till yesterday it was down to $6.31 or a 49% decline.

In the case of soybean meal, the decline is 55% from the maximum price. Soybean oil, 41%. Wheat had gone up to $5.30, which was the maximum, and yesterday it was at $5.17. So its decline has been only 2%. Corn is down 26%. Cattle, down 20%. In the case of cattle the average price per 100 pounds in Omaha in the June 1-8 period was $46.61. Yesterday, it closed at $45.62. In other words, it is below the freeze price right now. In the case of hogs, it is down 28%. In the case of broilers, it is down 30%.

So I think one point to be made here is that since this burst in the farm area, we have seen these prices decline. I think there are grounds for believing that the worst in terms of food prices is behind us.

It is quite striking, whenever you go to an international meeting, as I went to the new round of trade negotiations last week, to see the extent which inflation plagues everyone. But perhaps the most consistent problems are the prices of food and petroleum products and raw materials, particularly those that are traded internationally.

Unemployment Down

But in terms of our policy and what to do about it, I think the economy is really booming right now. For example, the unemployment rate for married males is at 2.1%, with layoff rates at their all-time low. Another interesting statistic is the one on voluntary quits. Those of you who have looked at this over the years know it is quite sensitive as an index. Whenever things are really good in the labor market, voluntary quits are high. When things are bad, few quit. In other words, one of the benefits of a strong labor market is that it gives people confidence. If they don't like the job they are on, they say to heck with it and find something else. It is good that people have this opportunity. Voluntary quits are very high right now, which I suppose is a marker for how the labor market looks to the average worker.

So from many standpoints, I think we are in a boom right now and our policy is to try to balance the budget, and we think that is the right policy at this point.

We would like to see the Federal Reserve following a policy of steady disciplined growth in the money supply.

Increasing Supplies

We are doing everything we can to increase the supply of scarce commodities. As you know, we have made a big effort to increase acreage and so forth, and that effort will be pushed again as we move into the new crop year. We have looked for other ways to increase the supplies. For example, we have tried to get the Congress to let us sell the roughly $5 billion worth of commodities that are in our stockpiles, our strategic stockpile, which the Defense people now state isn't strategic anymore; so we might as well sell it and get the prices down. And although we haven't been able to get the Congress interested in that yet, maybe we will and that will help. We may also find ways to use the wage and price control system as a device to get people to increase capacity. In any case, the effort to increase supply is truly a strategic one.

Phase IV

We have worked hard on our regulations under Phase IV. As distinct from past times, the regulations have all been put out for comment and we had a lot of good comment, too. We think that the regulations are the best possible. They have been suited to the problems of the industries we are trying to control, in the sense that we have tried to write regulations that are workable and understandable to the comptrollers of the various companies. I'm sure they are not perfect, but at any rate we have been trying and will continue to try to work it out.

And then we have, we believe, a better system for administering the whole process than we have had before, essentially involving decentralization to the field offices of the Internal Revenue Service, resulting in a much better interrelationship between our Washington Cost of Living Council staff and the Internal Revenue Service. So, we think that we are in a position to sense what is going on and react.

So there is a big effort to control this inflation, but not to get so caught up in the battle against inflation that we indulge in an overkill and bring on a downturn. We don't want that.

Balanced Budget

I would reiterate that we still aspire to balance the budget on the basis of controlling spending and not raising taxes. I must say when you go around the country you don't get the impression that people want to have their taxes raised right now. The alternative then is to control spending and that is difficult to do but that is the course that we are on.

In summary, I would say that we have tremendous problems in the area of economics. We have a need of great creativity, particularly in the international sphere where the monetary system is being redesigned. The trading system is now being worked on and we are trying to be creative with the wage and price control mechanisms. But at the same time, the problems we have, not only here but around the world, are problems that come from success, at least in the sense of having an economy going full blast where people can get jobs and where real incomes are rising in spite of the increases in prices.

I can't leave without saying a word of introduction. Bill Simon has been with us in the Treasury since last January. It seems like about 20 years ago, right Bill? And he has brought to our work in the Treasury a terrific lift. And as you will find when he talks to you, in the first place, he is smart, and that helps. He knows a lot and he has experience in this area and I thnk he is probably more of an expert on the subject he is going to talk to you about than anyone else anywhere. But he brings a lot more than that to our work as I am sure you will see in this seminar because he has got a sense of humor. He will not only laugh at you, he will laugh at himself. He just has a nice way of getting something accomplished. As everyone knows around the government, when Simon gets involved, something happens. He can get something to happen and that is a rare quality and we appreciate and welcome it and are delighted to have him in the Treasury and in the Administration. I am sure you will be glad to hear from him.

Mrs. Knauer: Thank you Mr. Secretary.

Statement of Virginia Knauer Special Assistant to the President for Consumer Affairs

Mrs. Knauer: Now my remarks are going to be brief because this is a seminar for experts both the ones up here and the ones in the audience. I do want to say, however, that the Administration has been working to develop recommendations to the Congress that are based on the Report of the Presidential Commission on Financial Structure and Regulation, known as the Hunt Commission, completed in December of 1971.

The President sent his Message and Recommendations to Congress on improving the financial system on August 3. The President's Message was based on much work and study in the agencies and departments and I'm happy to say the Office of Consumer Affairs participated.

The Message reflects extensive impact of the recommendations from consumers.

Thanks to some of you present for your views during the consumer study of the Commission report this past year. I want to particularly salute Dr. Stewart Lee and Dr. Sylvia Lane for their help. I also want to thank our National Advisory Council headed by Mrs. Eunice Howe. We had two excellent working sessions which were open to the press. One was in December of 1972 with Dr. Beasley—and you will be hearing from him a little later—and then again this spring with Mr. Jim Smith, who the President has since appointed as Comptroller of the Currency. Many important consumer views and concerns were stressed in these meetings.

I believe there should be continuing involvement by consumers in these recommendations, and, of course, that is why you, the experts, have been invited here today for a two-way communication: one to explain to you the concepts and thinking behind these proposals and two, to hear further of your concerns and impressions and to consult with you as leaders and representatives of consumer groups, labor groups, women's groups, and other public interest organizations.

This is an extremely well-qualified audience and I am very proud that we have representatives from the national consumer organizations starting with, of course, Dr. Warne from Consumers Union. We have representation from Consumer Federation of America, the National Consumer Congress, the American Council on Consumer Interests and, of course, the National Consumer League.

You have a major task ahead of you as representatives of all American consumers. Not only do we want your views today, but your leadership in the coming months will affect the course and the shape of the legislation.

The actual legislation will be presented by the Administration to Congress in a few weeks and then the public and consumer opinion will begin to take shape. Congress will certainly hold extensive hearings on this. I feel that the stakes are high for consumers as you will see today in our seminar.

In his Message to Congress recommending changes in the financial system, the President dealt with the problems that consumers are facing. He said, "Events during the last decade, however, have revealed significant defects in the operation of our financial institutions; the consumer saver was denied a fair market return on his savings while the consumer and small businessman, as borrowers, could not obtain adequate funds to meet their requirements."

So, as the President's words indicate consumers have much to consider about these proposals both as borrowers and as savers.

Now, of course, is the time to introduce our co-host, the very distinguished Deputy Secretary of the Treasury, Mr. William E. Simon.

Statement of William E. Simon Deputy Secretary of the Treasury

Mr. Simon: Thank you, Virginia. I hope I can live up to that introduction of the Secretary's and yours. I look forward to a good meeting today and I think that the remarks I am going to make are the least important part of the session. I think the best portion will be when we hear from you and your questions and answers that I am sure you are going to have after we go through all of the background material.

You have received a packet that I would hope you would be able to look through. This is an extremely complicated subject; the structure and regulation of our financial institutions is difficult to put into layman's words, the effect it will have on the various groups, the institutions themselves, and the consumers.

I think that my testimony, which I gave on Monday of this week before Mr. Patman, and the press conference transcript, where I attempt to put this complicated subject into real English, ought to be two of the things you should read, as well as the booklet. The booklet is entitled Recommendations for Change in the United States Financial System. There are lots of questions and answers in there that I think will help you.

I appreciate your taking the time to be with us today to review our proposals for improving the Nation's financial structure and to discuss the effects these recommendations will have on consumers in particular and everyone else in general.

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 change in that structure which we feel is extremely important.

Let me first briefly review what has happened in the economy since the beginning of the year.

Economic Review

While total economic activity has continued to advance and unemployment has continued to decline, price performance during the first half of the year was extremely unsatisfactory. I heard someone characterize this as the saddest boom in history. I think some of the polls that have been taken recently, which show that 20% of the American people feel that we are in a recession, is sort of incredible considering the statistics the Secretary cited to you. But this is the mood of the country when we have this tiger of inflation by the tail and when we are fighting so terribly hard to get the inflation under control. Unfortunately, there aren't any instant solutions to this problem.

Consumer prices rose at an 8 percent annual rate in the first half of this year, in contrast to less than 4 percent in the last half of 1972. Rates of advance of wholesale prices, especially for agricultural products and other raw materials, were extremely rapid. Increases in food and petroleum-product prices have accounted for approximately 60 percent of the rise in both our consumer and wholesale price indexes. 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 of last year.

I can only add what the Secretary said. I don't cite these figures to say to you people that we are doing a good job, but just to try and show you that we have a handle on the problem, that we are trying to solve it and do all of the things that are necessary to increase supplies and thus bring prices down.

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 disastrously poor crops both 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 pressures. Fiscal and monetary policies must work in tandem to exert a restraining influence on our 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.

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 non-fat dry milk, cheese, and meat. We are also—within the limits imposed by laws—selling scarce materials and other commodities no longer needed in the Federal Government's stockpiles, as the Secretary indicated to you.

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 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.

Role of Interest Rates

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 our economy. It is needed by every business to finance new plant and equipment, to finance acquisition of inventories, and to provide working capital. But like all other resources, it 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. These 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 to the borrower. This to me is the legitimate function of interest rates—namely, to respond to supply and demand in the marketplace, and to reflect and help stabilize our 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, can badly distort it. All of our experience has demonstrated 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 1930s in the mistaken belief that excessive interest rate competition among financial institutions caused the bank failures of that 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 as well as thrift institutions. At present, however, the maximum that commercial banks and S&L's can pay on their savings accounts is still only 5 percent and 5¼ percent, respectively. As a result, consumers are receiving this rate on their savings while consumer prices have been rising at an annual rate of 8 percent.

Encouraging Competition

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 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 one.

Background of Proposals

Let me go back for a moment to tell you how these proposals came about. Events during the past last decade revealed significant defects in our 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 and 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 on 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 piecemeal, interim changes in the system. In order to develop a permanent system that could provide sufficient freedom in our markets, the President established the Commission on Financial Structure and Regulation, popularly called the Hunt Commission. This Commission made some 80 recommendations. For the past 18 months, we have been studying these various proposals, 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 not brought about by a crisis.

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, as well as 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 will be able to do so with equality.

Highlights of Recommendations

Let me spell out the highlights of the reform recommendations.

The maximum interest rate now allowed on regular passbook savings accounts is 5 to 5¼ 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 5½ 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&L's.

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, which are "negotiable order of withdrawal" accounts. They are now available only from savings banks in Massachusetts and New Hampshire, and are quite similar to the standard checking account that we are familiar with. The deposit institution can pay interest on the account, but can legally require 30 days' notice before honoring a withdrawal. We also are proposing that these checking-type accounts which pay interest be made available throughout the United States.

In short, banks and thrifts 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.

We recommend that Federal thrift institutions be allowed to make regular checking accounts, credit cards and these NOW accounts, available to all customers.

We propose that 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 commercial banks need not be members of the Federal Reserve System. This would be an important strengthening 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 all of their depositors.

It is proposed that savings and loan associations be authorized to make consumer loans, real estate loans, and interim construction loans. They would also be given authority to invest in loans, or securities, or real estate for community welfare and development.

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.

We recommend that stock thrift institutions be permitted Federal charters, with powers identical to those of mutual savings and loan associations. Making Federal charters available to those 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 Federal charter and be granted all of the corresponding asset and liability powers of a Federal mutual thrift institution.

The Administration recommends removal of ceilings on interest rates charged on mortgages that are insured by the Federal Housing Administration or guaranteed by the Veterans Administration. It has been apparent for some time that these ceilings have not kept mortgage interest rates down. This is evidenced by the widespread use of "points" —that is, by buying mortgages at a discount.

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.

We recommend that the special tax credits 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 this investment or loan. This would permit institutions engaging in the same activities —mortgage lending, for example—to compete on this equal footing.

Since thrift institutions, for example, 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.

Summary

To summarize, these proposals are all 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. Many more financial institutions will be able to provide him with a *full range* of services, including mortgage loans, checking accounts, as well as personal loans. This should provide additional incentives to consumers to save, especially when money is tight. At the same time, over-all interest rates on loans to consumer borrowers should average lower because of the new rivalry and competition between banks, S&L's, as well as other lending institutions. tions.

Consumers would also gain one-stop financial shopping convenience. Instead of going to a bank for a checking account and auto loan, and to an S&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 these home mortgage loans.

Viewed in the context of our over-all economic policy, our recommendations for change 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.

Panel Discussion

Mr. Simon: I think we might get started again. First, I would like to introduce the people on the panel here with me. Rudolph Penner from Housing and Urban Development, Jack Carlson from the Office of Management and Budget, and Dr. Howard Beasley, who is a special assistant to me at the Treasury Department.

We will just open this up for questions and all of us here will field them.

The Credit System

Q. This question is of a very general character. I'm curious as to how your plans are going to be worked out. I have always had the understanding that the aggregate supply of credit in the country was related to the Federal Reserve System and its reserve requirements, and underpinning that, the reserve requirements, either state or Federal, applicable to the individual commercial bank. So that the total funds of the Nation tend to be synthetically created through the Federal Reserve mechanism. That is to say, the money supply ebbs and flows hopefully in accordance with the needs of trade, commerce, agriculture, and what have you.

Well, this system has carried on since at least 1914 as the basic mechanism of the Nation in this field. Now, as I understand from your remarks, under the Hunt Commission's idea, the attributes of the commercial bank ought to be shared with other financial institutions.

If they are to be shared and if you create what amounts to a demand deposit system spreading over a wide gamut of new institutions, as well as continuing for the old, have you built in any safeguards in this mechanism, that is, safeguards as to expansion rates, as to the degree of liquidity, the amount of liquid assets, as to deposits with the Federal Reserve? In other words, is there any interlock that would help to maintain the safety of the total system?

Mr. Simon: Absolutely, the same safeguards that exist today. You mentioned one of them and that is the State regulatory bodies we have.

Q. They have been highly imperfect in the past.

Mr. Simon: I would say everything in this world is really highly imperfect. There are many today who are critical of Arthur Burns and the Federal Reserve and you are 100% accurate in your statement that the Federal Reserve doesn't have the ability to contract money supply. And there are many theories as to how it should be maintained to keep us on an orderly pattern and avoid the economic excesses that we presently have. But we also, as you know, have an FDIC, a Federal Home Loan Bank Board and we think there is plenty of regulation.

Now Congress is looking at tightening this regulation, perhaps having one or two or three rather than the massive regulatory agencies that sometimes today have overlapped. We have studied this very carefully; there are ample safeguards built into the system and the competition for deposits is actually an extremely healthy one.

Now, Howard, do you want to elaborate on that?

Dr. Beasley: Just one extra point. A demand deposit or checking account held at an S and L would be treated the same way as that same demand deposit held at a bank. A national savings and loan, federally chartered, will keep the same reserve requirements against its checking accounts as a national bank keeps against its.

So as far as the national monetary policy, there should be no difference whatsoever. It is just that the name of the institution may be savings and loan as opposed to a bank.

Reserves

Q. But will the reserves be allowed to be replenished by borrowing from a central institution parallel with the Federal Reserve practice?

Mr. Simon: Well, you have that today with the advance system in the home loan and we are going to broaden the definition of eligible assets to include mortgages, which, of course, will encourage institutions to make more mortgages. Today, a bank which lends money to consumers and has checking accounts has broad powers and when a customer comes in and says, "I would like to have a mortgage," many times they will say, "Well, you go down the street to the S and L and they will give you a mortgage." But now he will be a little wary about sending him down the street because the S and L or the mutual savings bank will be more of a one-stop banking service and he could—within the constraints explained—lend him the money. And I think all of this is very healthy. And as a result, the S and L can obviously offer these services at a cheaper price.

Q. In effect you will be going back to a sort of 19th century Populism approach with commercial banks not being the unique group under the Federal Reserve, but a much wider concept of banking?

Mr. Simon: I would hope two things. Number one, that we are not going back to the 19th century but we are going into the 20th century. And implicit in what you just said is that there is no competition in the banking system. In fact, there is no magic potion in banking that says that anybody who opens a bank is going to make a profit.

Statement of James Lynn
Secretary, Housing and Urban Development

Secretary Lynn: Let me start out by saying I am glad to be here. One of the things I am trying to do at HUD is to constantly remind people that HUD is a consumer organization, and is in business to try to carry out the goal Congress enacted in 1948; that is assuring a decent home and a suitable living environment for every American family. You know, the first time I read that I wished I had said it because that is precisely what my department is all about and that is precisely what we ought to be doing.

The President's Message is directed almost entirely toward achieving that goal. Some of the ways of doing it are pretty indirect and they get over into Bill Simon's arena and some of the arenas of the other people here. These are very complex, technical matters dealing with credit markets and the like, but all directed to the fact that our consumers have a better chance of first, achieving decent housing if they don't already have it, and obtaining better housing if they already have at least decent housing.

Major Initiatives

First of all, I am sure your conversation today has revolved about, in part at least, the current credit situation. The President announced today two major initiatives to assist in that situation but with real recognition that we will have a period of some tight mortgage credit until interest rates decline. But as the President does say, there are steps that we can take to alleviate the current situation. There are steps that have already been taken. And whatever steps can be taken consistent with the overall anti-inflationary approach, let's take them, I feel. He announced that the Federal Home Loan Bank Board is authorizing a forward commitment program that will cover $2.5 billion in loan commitments. What this will do is assure savings and loans who wish to avail themselves of it, that they can make commitments now at a given interest rate for future delivery when the constructor-contractor needs the money, knowing that they have a source of funds at a known interest rate.

Secondly, we in HUD are reinstituting the so-called Tandem Plan, whereby FHA will be afforded the opportunity to get money at interest rates somewhat below current interest rates. And how do we do that? We make a commitment now to somebody building single family housing or multi-family housing. Later, when he needs the money, we will take a mortgage at this somewhat favorable interest rate. Now, if the interest rates are still up at the time he calls for that money, we may buy that mortgage from him. In other words, we honor our commitments and we thereby afford home owners a somewhat better break than they have at current market conditions. In other words, it opens up an opportunity for people to whom that difference in interest rate could make all the difference in the world between having enough money to buy and not to buy. We are talking about a $3 billion program in that regard.

Thirdly, we are asking Congress on an expedited basis to put through a bill that would raise the mortgage limits that FHA can insure. Under the law, FHA is limited as to the size of a mortgage that it can insure and the down payment requirement. Since the last time those were changed, in 1968, the usual transaction in housing is at a higher dollar level. Even if FHA gets its one-year extension it has been dying in the sense that those old mortgage ceilings are now obsolete.

Now this has a special effect in nine states that have usury laws so that if you are a bank, even if you got the money, you can't make a loan above the ceiling imposed by the usury laws. States like Maryland and others have gone out of business, in effect, in making loans because of those ceilings.

In a fair number of those states, there is an exception for those laws for FHA-insured loans so, if we can get back in business on the size of the mortgage, we can get back in business where usury laws make exceptions for FHA loans.

The President is also asking for removal of the ceiling on interest rates on FHA loans.

The ceilings put on FHA interest by me—and I try to keep it relatively close to the current market but the market fluctuates and it is hard for us to always be right—have just the opposite effect they were intended to have. They were intended to give the consumer a lower interest rate but in fact, gave him higher costs. Why? Because no lender is ever going to make a loan at less than the market rates.

So what does he do? He says, "I will take some points."

Now, points are prepaid interest. The prepaid interest, first of all, is calculated on the full length of the mortgage; 30 or 40 years. Now most people don't stay in that house for 30 or 40 years. They leave at the end of 12 or 14 years and when they do, that means the lender got an effective interest rate from the time the loan was actually made far above what the current market rate was at the time the loan was taken out.

Secondly, the seller, having to pay the points, reflects it in the purchase price and that means that down payment is higher, it means the mortgage principal amount is higher, which in turn means you are paying more interest because of the higher principal. His insurance is then higher. Probably his taxes are higher. So all we are saying is "Please, folks, up there on the Hill, let's get rid of this antequated method. We are just kidding ourselves and not only kidding ourselves but hurting the consumer; hurting his opportunity to obtain housing at the best price available in the market."

Mortgage Tax Credit

Now, the mortgage tax credit.

You probably mentioned, Bill, that thrift institutions today enjoy a tax privilege that other mortgage lenders do not enjoy. What has been proposed by the President is to let us have a mortgage interest tax credit which increases as the amount of your portfolio represented by mortgages goes up. In other words, in any given portfolio, the greater the percentage you have in mortgages then the higher the mortgage interest tax credit you have. The maximum rate, achieved when 70% of a portfolio is in mortgages, we say should be 3½ percent. I'm told that at current interest rates this is better than the equivalent of a half point in interest, a substantial incentive for people to put their money into mortgage loans.

What does this do? One, the mortgage tax credit offsets whatever losses the thrift institutions would have from the elimination of the special tax privilege that they have now. All of the figures show that with a combination of this 3½ percent tax rate at 70% in portfolio, plus the added opportunities lenders have on a limited basis to go into other activities, they are better off than they are under the existing tax formula.

Secondly, it seems to me one of the things we may do is cultivate private pools of mortgages where people will say "In order to get the benefit of that top 70% rate, let's form an organization privately that will buy mortgages. Where do we get our money? We issue our debt securities in the secondary market from pension funds, insurance companies, teacher funds, and so on."

The tax exemption doesn't mean anything to the pension fund or the state teachers' fund, but it means something to those fellows putting the pool together because it means they have an edge in the interest rates they offer.

Thirdly, suppose you have a commercial bank with 8% of its portfolio in mortgages. If they could get a higher tax credit at 10%, there would be every incentive in the world for the bank to move from the 8 to the 10 percent. Why? Because the minute he moves from the 8 to 10 percent, the investment tax credit applies to the whole 10 percent, which means his incremental yield advantage is tremendous.

We see in all three of these ways--keeping the incentive with the thrifts, pooling, and giving a real incentive for people already in the business to increase their activity—a very good future.

Varying Repayment

We also believe that we ought to have some special authority to offer varying repayment terms on FHA loans. As you know, one of the greatest breakthoughs the Federal Government participated in was the long-term low-interest or low-downpayment loans; the FHA, the VA, and so on. We know, with certain groups of people at least, how much their income can be expected to rise over their lifetimes and we think we ought to, at least on an experimental basis, try to see what our risk would be if we gave younger people lower payments in the earlier years of their mortgages and, as their income increased, increased the mortgage payments. Not only would this give an opportunity for young people to achieve home ownership, but it would prevent as much jumping around as we have had where people find after eight or nine years in a home they really underbought. They may have known they were underbuying but had no choice. So this would afford more opportunity to buy more housing earlier and perhaps cut down on needless jumps that people would just as soon not have made.

We want to work with the Congress towards reinsuring the private mortgage insurance companies. Private mortgage insurance companies insure the top risks, the top 20 or 25 percent of mortgages, just the way VA does with mortgages, only we insure presently 100%. There is one big difference. Private insurance companies have a much lower premium cost to the consumer than FHA. We want to encourage their development. One way we think we can insure their development is to make them more accessible to people who still don't understand them very well. One way to do that is by analogy to the banking community where we tell our depositor that if you put your money in that bank and the bank goes out of business, your deposit is still insured.

What we want to do is work out with the Congress a method whereby the people who sell this insurance will know that no matter what happens to those private mortgage insurance companies the reinsurance of the Federal Government is behind it.

Past Policies

Let's talk for one minute about one other major point and that is providing a decent home to our lower income people. This has been a very difficult problem but one that deserves our highest priority. We have done remarkable things in housing in the United States in the past 30 or 40 years. The rate at which we have gotten rid of substandard housing has been phenomenal but we expect further progress. From what? From mainly having a healthy economy, more jobs, people with more real income so that they have the purchasing power to go into the market and buy housing and get the credit. But we still have over three million families in this country that don't have adequate housing.

The primary approach of the Federal Government has been let's *build* new units for lower income families. Our study has reinforced the conclusion that this is the most inequitable, the most costly, the most wasteful way that we can possibly do it. That doesn't mean there isn't room for a construction approach, because there is on a limited basis. But everything in our study shows it is inequitable because even with it costing us $2½ billion a year for the foreseeable future, from the commitments we have entered into, we are still only reaching 6% of the people that would be eligible for such housing. So whether for public housing Section 236 or 235 or whatever it is, the waiting list still remains tremendously long.

Secondly, we herd people together too much. We take people with the same problems and put them in the same place and this is terrible for them.

The third thing about it is that it is wasteful. As we look at the national scene at least, there appear to be sufficient vacancies of decent units, modest but safe and sanitary, around the country so that if the people had the money, they could live there. The problem is you can't build a ten-year-old new structure so that just by definition, building new is more costly.

The President is saying today that the most promising approach we have is the one that we started work on in the 1970 law that was adopted by the Congress. We now have $150 million worth of experiments, that is, providing direct cash assistance to poor people to buy housing.

Now, we realize this would involve a tremendous amount of resources, more than this country has ever put into this kind of thing before. Our current estimates are that were this kind of a program fully implemented, it could run between $8 and $11 billion a year.

One of the problems we have had in the past has been that we come up with a housing program and everybody throws up their hands and says, "This is it. Eureka, we found it finally and let's go ahead full steam." So what happens? We put money into the program, as we did in our existing construction programs and then we find two, three, four years later—they are a disappointment. And as you know this Administration built more subsidized housing in the past four years than had been built in the prior 34 years. It is a disappointment to the people who are still waiting in line with their hopes dashed and certainly a disappointment and a waste to the taxpayer.

Housing Experiments

With $150 million we have invested in the housing experiments, with the further authority the President has asked the Congress for today (to measure what kind of rent it takes in each place in the country to get decent housing), we think that by the end of 1974 or early 1975, we can have an operational program that has been thoroughly tested, includes various people's views, includes what Congress thinks, and a program that makes sense.

Now there are a number of questions yet to be answered on this kind of a program and I urge your looking at the President's Message to see what they are, but our number one priority at this time should be to see whether we can take this policy of direct cash assistance and put it into an operational program and that is a responsibility that I have at the present time.

I will skip over several items in my testimony which are important, but we are running out of time—neighborhood preservation, rural areas, and equal opportunity, including equal opportunity for women.

But it is a comprehensive paper, and pretty hard to cover in a few minutes. How about some questions?

Questions and Answers

Varying Repayment

Q. I'm intrigued with this idea of lower financing as the family progresses. It has been my experience the costs for a family increase as the children grow and that, therefore, the sort of picture you give on the family may be quite the reverse.

Secretary Lynn: You noticed I said it was on an experimental basis?

Q. I appreciate that.

Secretary Lynn: We want to be cautious in this regard and we surely don't want to trap families. We should by June 30, 1974, own the mortgages on over 280,000 units of FHA-insured or FHA-subsidized housing across the country. This is not withstanding stepped up activities in the last six months to resell the properties we have acquired.

Think of the people out there who bought that home. Think of the people who were in there and then found they couldn't make it. Think of that kind of tragedy, and then the problem also of waste to the taxpayer.

Mobility

Q. Along the same line, the problem of course will be decreased mobility and this needs to go into the study also.

Young people do not buy homes because they want to keep their mobility and move from one job to another. When they find that they are paying lower payments at the very beginning in buying their homes, there will be a tendency not to move. So we will have a cost to the economy in that we are locking people into a location and it might be better for us to let them move around.

Secretary Lynn: I am not sure that is a real problem. It might be a real problem when inflation is absolutely nothing, but with the practical situation in today's market place, I doubt if it will affect mobility except in a very small segment—

Q. This is what I am talking about.

Secretary Lynn: Yes, but the cons of the experiments we are talking about are such that if you looked at the total mobility of our population, the numbers of people initially that would be involved in these experiments wouldn't have much of an impact on the total mobility of our people. I guess, with you, I want to preserve that mobility but once the program was put into effect all over the country, if the experiment shows it is feasible, you wouldn't have that problem because lower prices on the houses would be available everywhere.

That brings up another thing. One of the nice things about a construction-oriented program is we help the people get a place and then they have great reluctance to go someplace else because they don't know whether they will be able to get that kind of housing for what they're paying. So with the direct case assistance approach, you carry it with you, so to speak, and you have greater mobility.

Mr. Simon: You are saying you are actually increasing mobility because of this?

Secretary Lynn: Exactly.

Q. In the short run though, in experiment, you wouldn't?

Mr. Simon: When it becomes widespread though, it would increase mobility.

Q. Right.

Construction Program

Secretary Lynn: I didn't mention the construction program at all.

We subsidize construction now in two ways: One is on public housing where we pay for the bonds. In other words, when they build it, we pay it entirely: one hundred percent of the cost of capital construction. As a result of amendments passed in the law starting in 1968 or '69, we also now pay the short fall between the income of the housing project and its rental. That started with $31 million in 1969 and three years later it is $208 million and still going up. That is one way we do it.

Another way we do it on the so-called moderate income family housing, is with section 236 essentially. We give a tax shelter advantage of a very rapid write-off, we give a subsidy down to 1% of the interest rate—in other words, we pay all of the interest down to 1% of the 7, 8 or 9 or whatever it is—and, in some cases we give a rent supplement, etc., on top of that.

Now our feeling is we do need some construction. First of all, we realize in putting in a direct cash assistance program, there will still be areas in the country where the market is so tight that, if you just give money to people, it will raise the rents without their getting anything from it. Secondly, since you are dealing with such huge sums, any program of this kind would have to be phased in for different groups and the President proposes the elderly first over a period of a year. Meanwhile, other people aren't being helped at all so we need some approach, modestly used, for new construction. And what we are proposing is that instead of the present approach, we say to developers, "Look, if you will reserve so many units from your project—maybe 5% or 10%—we will assure you of the difference between the rates people can afford to pay and what you would have gotten in the private market for it. It minimizes our participation. It minimizes the concentration of people in one place. We think it is a constructive approach and are asking Congress for it now.

Q. Is this direct cash assistance going to be in the form of coupons or direct money or checks or some negotiable paper of some sort or what?

Three Experiments

Secretary Lynn: We have three kinds of experiments out among these experiments, which involve 20,000 people across the country. We have a so-called demand experiment, which means it is in a community where we know there is a lot of vacant housing around and we wish to see how they will use their money and what kind of counseling makes sense, particularly with older people. We have an Administration experiment, which is having various Government agencies try it; and we need authority from the Congress to see whether there are other Federal agencies that might do it. We also have what we call a supply experiment, where we go into tighter markets to see what effect it has on the rentals.

We do have vouchers and we do have cash and in some cases we do require the person to spend a certain part of his income plus the housing supplement. In others we say to him all you have to spend on housing is the supplement we are giving you. All this gives us more flexibility than before.

We need these months ahead to get such information before we launch out on this kind of an effort.

Q. Your plan sounds wonderful to me, but I would like to know does the person who gets the money have some kind of a contract and some arrangement to pay this back? Or is it a gift or what?

Secretary Lynn: It is assistance from the American people as a whole to the people who just can't do it in the marketplace.

Q. Well, I have seen gifts given to the Indians for example, where I felt that was the worst thing that could possibly be done for them.

Secretary Lynn: Well, this is one of the reasons for the experiments, of course.

Q. Sure, but I think there must be some feeling of responsibility on the part of the recipient of it or it will fail. I have seen it fail before.

Secretary Lynn: Let's share the experiment together. As I understand it, with the experiments that were made in other areas, HEW for one, it's been remarkable how this has provided an incentive for a person to work for better jobs rather than having the opposite effect. And of course with many people that isn't an issue at all. With the elderly, the disabled, the blind for example, we are not asking them to go out and work or work harder.

Just like all other groups of people, our poor people aren't fungible. In other words, they are all different. They have all different kinds of problems. They have all different kinds of abilities. And I agree with you we surely do not want to have this keep people who are able to work from working or create disincentives for them to go forward, but we are hopeful that part of the purpose of these studies will be to come up with these kinds of answers.

Q. So it will be an individual plan for every individual and every family?

Secretary Lynn: The way we are now going is, if we can get this authority to put the mechanisms in place in the country, in each community, we will know what it costs at a given period of time to acquire safe and sanitary and decent housing. Then we will say to that person, "What is your income?" We will take a certain percentage of it and, as you can see, that is something we have to work with the Congress on. Should it be 25%? Should it be 30%? Should it be higher or lower for the elderly and so on? And we will say, "All right, if that is 25%, that is the amount you ought to spend at least for the purpose of our program on housing." And we will ask, "What is the difference between that 25% of your income and what it costs to get decent housing in this area?" And then we will pay the person the difference or we will pay the person so much of the difference as he is willing to spend on housing with 25%.

Now there are lots of really difficult questions that I am going to be spending a lot of time on in the next six or seven months or so. For example, what do you do with elderly living at home? How do you compute their income? What do you do with someone who owns their own home? So there are many questions of this kind so that we won't put in a program that doesn't make sense and have people start tearing it apart. We want to be able to put something together that makes sense initially so there won't be those disputes later on.

Rural Areas

Q. I have a technical question. Will this be in the rural area as well?

Secretary Lynn: All over America.

Q. But are the experiments going on in the rural areas now?

Secretary Lynn: In towns that are small enough that you could call them rural.

Q. But not out on the farm?

Secretary Lynn: No, not on the farm itself. It is pretty hard to put the experiment on the farm.

Q. Yes, I know.

Secretary Lynn: But the program would be for everyone, both urban and rural.

Mobile Homes

Q. What is the Administration's policy going to be with respect to mobile homes?

Secretary Lynn: That gets into our Title I Mobile Homes Improvement Program, which is a risk sharing program. When it did work, before it got outmoded due to the cost of mobiles, we found that it really did affect interest rates. In other words, the availability of risk sharing made the difference in a lender making loans. And we have asked Congress for an updating of those provisions which my people tell me, and the study confirms, will have quite a good effect on credit terms for mobile home purchases.

Housing Codes

Q. Is much pressure being put on the idea of more and better and more realistic uniform housing codes?

Secretary Lynn: There is a good deal of work going on in that area, trying to give technical assistance on how to judge whether a code makes sense or not. I have talked to the people in the trade unions, for example, and their view was that sometimes we proceeded too fast with code changes where we really didn't know how well they would work under certain conditions. It seems to me what we need is further technological improvement in codes. And the fastest way we are going to get changes in codes is for everyone to be convinced—the builders, the people who work the materials, the people who deal with the codes from a governmental standpoint, the consumers—is to know that the testing was thorough and practical and the product really does work and is better than before. I think that ought to be one of our principal approaches.

And with HUD being directed more toward the consumer and acting as a catalytic force, I think that HUD ought to be the place in this country where the builder, the home owner, or otherwise can come in and find out what are the most recent innovations that are being developed. The Office of Advanced Housing Concepts, which was put in by my predecessor, now has additional work in this area and that is, of course, one of my priorities too.

Mr. Simon: I would like to add one thing that I didn't have a chance to finish before. If we went back to the 19th century, one might say it was pretty wide open; that there were no rules or regulations. And anything that doesn't have rules or regulations, as you know, is going to have its built-in abuses and it certainly had built-in abuses. We saw that time and again. But today banking is not only regulated but it is highly competitive. And what do I mean by that?

Looking back into the 19th century, we didn't have a Federal Reserve or FDIC or a Home Loan. If we hadn't had the Banking Act of 1933, that restricted the banks in certain activities, or the Banking Act of 1934, the FSLIC, the situation might have been different. But we have a myriad of laws that protect the consumer depositor and continue to make these banks the viable institutions they are.

We also have dual regulation today, which we feel is very valuable. If we just had a single banking system in the United States and one regulatory agency, this agency would not feel very highly protective. But this dual banking system with State regulatory bodies are indeed laboratories to innovate and continue to bring banking into the 20th century. We are proposing that within the limits of soundness and safety, we are working to remove unworkable and inflexible regulatory restraints that really restrict the power of these institutions.

N.O.W. Accounts

Q. I come from Massachusetts where some of us feel the NOW accounts are commendable. And incidentally they exist without the sponsorship of the state regulatory commission there. But at any rate, we do have these NOW accounts and from what I have interpreted of the Hunt Commission Report, the concept has been picked up and other accomodations have been made to further the idea of the NOW accounts. A few days ago, I read that the Federal Reserve Board, however, had announced or had proposed some constraints on the NOW accounts specifying a minimum daily balance and a maximum number of withdrawals and that sort of thing, which I interpret as being in quite the opposite direction in which I thought we were headed.

Have I misread this Federal Reserve release?

Mr. Simon: NOW accounts were not in existence at the time of the Hunt Commission so were not part of their package. The Inter-agency Task Force that worked on the Hunt Commission has recommended reserve requirements for demand type accounts, which is essentially a NOW account.

Negotiable orders of withdrawal differ from a State demand deposit where you can come in with your check and demand the cash right there on the barrel. There can be a 30 day wait or even a 60 day wait in some areas.

I would envision that NOW accounts would evolve differently than a straight demand deposit—the checking account that you all have to pay your bills. We have the experience of the two States that are able to use these right now, Massachusetts and New Hampshire. We are finding that consumers using NOW accounts, are using them for paying their big bills, their insurance premiums, and house payments. Obviously banks are not going to pay interest on a deposit where it is going to be very unprofitable for them. So the Fed is concerned that undue competition will spring up immediately and people may go out and say "Look, we are losing money on these NOW accounts. Let's go ahead and put a lot of them in the bank and we will worry about them after we have built up our deposits."

This isn't the purpose of the NOW account. I envision them evolving to where individual banks will say, "We'll pay a certain interest rate for a minimum balance and we'll put a service charge on each check that is drawn each month." The banking institutions will, after all, have to make a profit. The consumer, who wishes to maintain a minimum balance and yet still have the convenience of writing a check while he is receiving less interest, will have that convenience.

So I don't think this flies in the face of what we are proposing at all. This just injects a bit of caution and is saying in effect "Look, fellows, don't run out with these powers and say you are going to get these deposits and worry about how you are going to support it later on."

So I think this is a healthy thing. Let's move into this slowly. We recommend phasing in the investment powers of these new institutions, the ability to invest in corporate securities, and so on. What we are really trying to do is have you recognize that these people could take 10% of their assets and go into the marketplace right today and invest the whole thing, but we don't think that is very wise and think it is better to go into this slowly.

Dr. Beasley: Obviously, as you can see, we love the NOW account concept. Probably no other one single act has given an impetus to either this report or to the consumer awareness of their financial system as the NOW account. And what began as a little known court decision in Massachusetts, really started a revolution. We want to nurture this.

The regulations that came out yesterday are proposals, not regulations. They are out for comment and they are not final. As you know, the banks and the S and L's became very upset that the mutual savings banks in Massachusetts and New Hampshire got this additional power. They argued quite strongly last spring that the NOW accounts should be prohibited throughout all of the 50 States and particularly in these two States. The Treasury was very much opposed to that. We argued on the other side before both Committees of Congress that the NOW accounts should be nurtured and that this was a laboratory experiment of great benefit to the consumer. We even agreed to allow the Regulation Q bill, to which these prohibitions were attached, to lapse if Congress forbade the NOW accounts in these two States. And it lapsed for a month. However, a compromise was worked out whereby the NOW accounts would be allowed to exist within these two States but banks and S and L's would get them also. And part of that compromise was that the regulatory agencies would adopt a uniform set of procedures under which the NOW accounts would be issued. That is what the FDIC and the Fed have come out with. They are restrictive in a way but—

Q. I would like to make a comment on this NOW account situation too. I am not sure we really know what is going to happen because it seems to me that the market will differentiate between the rate they will pay on NOW accounts and on other accounts after Regulation Q is over, after it's phased in and your five years is up. You may very well have just one interest rate and it may very well be all M–2. It's not just a definitional thing.

For instance, housewives have checking accounts and they use them differently than savings accounts and—you may very well increase expenditures and it may very well contribute to inflation. I'm just wondering, have you thought this thing through.

Dr. Beasley: Dr. Wolf is an old professor friend of mine from Texas, so we have been through these discussions before. We have had a chance to look at the two ways in which NOW accounts are offered. You make a good point.

Q. Maybe M–2 will become M–1, that's what I was saying.

Dr. Beasley: Yes, maybe M–2 will become M–1; who knows? I guess I might say it is M–1½ probably.

Q. Would you tell us what M–1 and M–2 means?

Dr. Beasley: M–1 is the aggregate of demand accounts outstanding plus currency and M–2 adds in time and savings accounts. But let's don't worry about that for the present time.

But we have had a chance to look at it. In Massachusetts the law states that the NOW account rate must be at the pass book rate. It came out at 5¼, I think. I believe it is 5¾ now. So it is a very high rate. The charge at that rate is around 15 cents a check per transaction.

In New Hampshire, they offer them at a very low rate. I believe that most of them are at 2½%, yet they are free. So they are more of a perfect substitute for a checking account. And there is a perfect example of the market really working.

In Massachusetts the average check is up to $75, as opposed to normal check transaction of say $10, $12, or $15. The $75 illustrates Secretary Simon's comment that it is a secondary liquidity reserve; only big checks are written on NOWs.

However, in New Hampshire, where it is more of a perfect substitute and almost a free checking account, the average withdrawals are in the $10, $12, $15 range, such as for a normal checking account. Also, it is more important to note that the banks in New Hampshire have now started providing free checking account privileges for their customers in order to keep them.

So this is a perfect example that the market really differentiates and I believe that what will happen is a bank may offer three or four different types of NOW accounts to its customers. It may pay 5% on one, but charge 25¢ a check. It may oer 3% on one, but give you ten free checks and then charge you 15¢ a check.

Q. Is that happening in Massachusetts now?

Dr. Beasley: No, in Massachusetts the problem now is that the court decision from which the NOW accounts came into being, held that you must pay the same percentage on all deposits even though one deposit account may be withdrawn via a negotiable order.

Mr. Simon: Excuse me, but one more thing to understand is that while they pay 5¾, they put a significant charge on each check to effectively bring that interest rate down or even make it negative as far as their costs are concerned.

Q. But there would be a problem if people converted a lot of time deposits into NOW accounts as far as getting that reserve that you require them to have?

Mr. Carlson: By attaching loan accounts and taking those out of the economy, the monetary authority has been able to compensate very quickly. So I wouldn't worry from a monetary standpoint about our ability to handle any types of shifts in the characteristics of funds out there.

Future of S&L's

Q. I would like to ask three questions. First, wouldn't this wipe out the distinnction between commercial banks and S and L's, and eventually eradicate S and L's just as supermarkets have killed the small mom and pop stores across the nation?

Mr. Simon: Can I answer that question first and then you can ask the others because I might forget the question while you are asking all three.

Number one, we are not imposing this system on anyone. They will be free to remain the small grocery-store type financial institutions you compare them to, the boutiques, and so on—a specialist institution—or they can become the Macy's department store type institution if they wish.

Q. If they have the resources, but how can they have the resources like commercial banks?

Mr. Simon: When you say resources that is what we are giving them; the ability to attract loans. The savings of the American people are the raw material for growth and we are encouraging growth.

Q. But the Bank of America will offer let's say 12% in order to attract savings whereas the neighborhood S and L can only afford to offer 8% and then the S and L will go out of business and the Bank of America lower its rates. That is obvious.

Mr. Simon: I'm afraid you are implying people are going to do unprofitable things in running their business which is incorrect and secondly, you are also suggesting that some people are irresponsible, which I agree with. But, thirdly, and most importantly, we do have all of the regulatory mechanisms that I spoke of before and where you do see abuses —and I am sure we have abuses going on even with all of the restraints in the system today—but the regulatory agencies land pretty heavily on these abuses. So a few people may abuse the system—and it won't be, I assure you, the Bank of America and the Chase Manhattans who will abuse the system, that really isn't a good example because they are big and responsible. I might add, all industry whether it is banks or corporations today are more socially responsible than they have ever been before and I would suggest they are going to be even more so in the future. But anyway, for the few people who are going to abuse—and there are always going to be a few people that will abuse every system we design—should we penalize the entire system? Well, we don't think so. We think we have the safeguards built in here that are going to take care of that possibility.

Mr. Carlson: I think that you have an assumption that all commercial banks are alike, and I think you will find that many of them have, in fact, specialized in quite different areas. So you have specialization even within categories of commercial banks, or even S&L's or mutual savings banks and credit unions. So I think whatever your demand situation in your particular area is, it is going to influence your particular financial institutions.

Higher Interest Rates

Q. My second question, that in raising interest rates, if that will perhaps allow credit costs and mortgage rates to seek a higher level.

Mr. Simon: You know, I would like to comment briefly about the confusion on raising interest rates.

Q. No, I said that in allowing the interest rate to seek a market level, if that perhaps will allow costs and mortgage rates to seek a higher level.

Mr. Simon: Well, that could be charged, but let me suggest that I isolate interest rates and the function of banking. Let me try to explain that.

If we do our job right down here and have stable economic policies, and a proper balance between the fiscal and monetary policies and allow moderate interest rates, there should be a balance. In other words, we can't isolate mortgage rates and so on from the entire system; they are part of an interest rate structure that includes Treasury liabilities, corporate bonds, state and local debts, etcetera, and we cannot keep those in isolation. But, if we do our job properly and keep inflation and inflationary expectations under control, then you are going to have moderate interest rates. If anything, with more money on a stable basis being put into our savings institutions, you would have lower rates.

Q. But under that rationale, if the system operates correctly and everything is going to work itself out, why do you suggest all these changes that you just got through mentioning?

Mr. Simon: Well, in the first place, we want to assure that people are going to be encouraged to invest in the mortgage instrument, in residential housing, so we can meet the growing demand for housing in America.

Q. But isn't that contrary to what you just said?

Priority for Housing

Mr. Simon: Mortgages primarily don't enjoy the liquidity today, although they are geting better since the secondary operations, since the Jenny Mae and the pooling process that we have seen occur, through Fannie Mae and the Home Loan Mortgage Corporation in the last few years. But what I am

525-453 O - 73 - 4

saying, basically housing is a special priority and in recognition of this social priority, I think it is the Government's responsibility to have a system in place that encourages people to increase investment and that is what the tax credit is all about.

Q. In the proposals, if you want to call them rationalizing our banks' system, fine, you then cut out about 90 percent of what I want to say, but if you want to characterize them in terms of improving the availability of money for housing, the whole thing to me is a complete facade.

What you are doing is, you have a slight leg up now for housing through the S&L's—and we all agree that the leg up is certainly insufficient—but what you are doing now is relying solely on a tax credit device for mortgages which, number one, will only affect the mortgage market to the extent that the tax subsidy is enough to resolve the difference between the two interest rates and, number two, it addresses itself not at all to any changes in the mix as between mortgage investment in $200,000 homes versus mortgage investment in $20,000 homes.

So I don't see how you can in any way, shape, or form, cast this as a mechanism to get more money or—

Mr. Simon: This is part of this restructuring of financial institutions. We have this process we have gone through in '66 and '68–'70, where money goes out of these institutions into open market institutions at a higher rate. It flies out of the thrift institutions, who have been the traditional lenders for mortgages, and during periods like this, people have less credit. We are trying to address that in giving them the ability to pay a higher rate during this period to keep the savings in the institutions.

Today the only thing we have is the reserve for addition to losses on loans in the thrift institutions.

Restraints vs. Incentives

Q. No, you have the S&L's. And the constraints on the S&L's.

Mr. Simon: It's not constraints today. And an institution that has the freedom to move between the 60 and 82 percent to get the tax benefit can basically do what it wants to. If it finds it fundamentally profitable to stay in housing institutions today with this reserve for addition, well, it can basically do what it wants to. What we are suggesting is that we give it even more of an incentive here while at the same time giving it additional powers to withstand the pressures of tight money—to be competitive during that period. But we are not suggesting this is any panacea.

Q. But this incentive is purely a function of the amount of your subsidy in bringing up interest rates, and theoretically you will be chasing your own tail to the extent that you drive interest rates up in this area or you subsidize this area.

Mr. Simon: Basically the incentive today is purely monetary. I don't know of another incentive in the marketplace.

Mr. Penner: I don't think we should lose sight of the fundamental issue, that is, if you use regulations to keep rates low on a certain kind of deposit, what you are really saying is a certain kind of depositor should be subsidizing the mortgage market.

Q. Aren't you saying exactly the same thing?

Mr. Penner: No, I think you are changing the nature of the subsidies. It's the regular savings depositor who, after all, is the middle income guy, and the lower income guy.

Q. Aren't you saying the credit goes to the investor?

Mr. Penner: Well, the first point to make is that the credit now spreads the burden of the subsidy and makes it very explicit, and second, the competition between banks will insure that the bulk of that credit will be passed on in the form of lower mortgage rates.

Q. What do you mean by that? Why do you need the tax credit anyway?

Dr. Beasley: That is a very good point. We looked at this as probably the number one issue of the whole package. We asked, are we going to design the financial system to take care of only one sector of the economy, i.e., housing? And we decided that is not the correct way to design a financial system that touches everyone in the country. You design it to be the most efficient allocator of funds; collecting savings for people and allocating it in the most efficient way.

Secondly, you look to see if we can provide any special tailor-made incentive to a social priority investment which we decided housing is. Although we can argue long and hard with econometric studies and so forth that housing will not be hurt by the competition with the banks and so forth, you are never really going to sell that in an econometric sense. People just won't believe that S&L's will grow larger and hence have more money to put in housing and so on, so you have to really put that last nail in, and that is a mortgage tax credit.

Now we think housing would do fine without the tax credit, but it is extremely hard to sell that as an emotional issue and the tax credit is the final thing to get that point across.

Mortgage Tax Credit

Mr. Simon: We are still working on the exact amount. An average would be $100 million or $150 million lost to the Treasury Department which would compare favorably with the subsidized programs HUD has had over the last 10 years. If it achieves what we believe it will, that is darned cheap for this priority.

But let me explain just one other thing just to dramatize this incentive and what it means in dollars and cents. The credit might go from 2½% to 3½%—we are still working with the numbers right now. Today, the commercial banks are sending their customers to the savings and loans because they know they will not lose that customer to the savings and loans. Today, banks have about 8 percent of their assets in mortgages. Say we start this multilevel approach at 10 percent of the portfolio in mortgages—the bottom number we are looking at now. A 2 percent tax credit on 10 percent is significant. That isn't very much—2 percent credit on a 9 percent mortgage is 18 basis points—so why does anyone want to do that? Well, I will tell you why. If they have 8 percent of their assets in mortgages, for an additional 2 percent in mortgages, they can get a full tax credit of 2 percent on the entire 10% of mortgage holdings. Now, 2 percent isn't 2 percent anymore. It is 10 times the 18 basis points, or 180 basis points after tax. Well, that is pretty good incentive.

Q. You are calling it an incentive, but I call it a loophole. You are giving the big banks a new tax loophole in order to encourage better financing of housing. I think there must be another way, a better way of financing housing.

Mr. Simon: Well, I do wish that Jim Lynn were here because he could list them, but you know of all of these new ways that have been tried over the past five years.

I argued in 1969 about loopholes. Well, is the mortgage deduction a loophole or an honest subsidy? Who in their ultimate wisdom would say it is a loophole? Congress has established housing as a priority, and established the deduction for the interest payment on mortgages. Everybody in America can deduct the interest payment on their mortgage from their income tax. Many economists say that is a loophole and we should close it, and it would raise $50 billion, but Congress isn't sold on that. They studied it in 1969, but didn't feel it was a loophole.

Dr. Richardson: Fairfax Leary testified before Wright Patman's Committee, and is extremely concerned with the question of housing and undoubtedly with the approximately $600 billion or so in housing mortgages. That is an awfully big chunk of our financial resources, but there is a balancing act here. We have $160 billion or so in consumer loans and part of the threat that I think some perceive to housing is that some of the money may move to consumer loans. You have seen the formula by which consumer loans would be taken care of. On installment loans, you know, the average interest rate is 23 percent. For some good reasons, perhaps, the large saver gets the leg up at the expense of the small saver. That is, the fellow with $100,000 can go to bonds, they are more sophisticated. But the person with $500 or a few thousand dollars doesn't know exactly how long he can leave his deposit in and uses a passbook. So they are the ones who are doing the subsidizing.

HUD Programs

Mr. Simon: Could I just ask Rudy Penner to comment on HUD's programs?

Mr. Penner: In being asked to look at other forms of subsidy, I think we have shown how not to do it, in the sense that we have tied interest subsidies very closely to particular kinds of housing units defined very precisely in government regulations. That has proved to be an enormously expensive way to improve the housing situation.

First of all, given the amounts that society seemed willing to spend on housing and because it is so expensive to serve each family, we have only served a very small proportion of the families defined as eligible. Secondly, when you structure a subsidy like ours are structured, you bring the interest rate down to 1 percent. This is so expensive that the really poor person cannot consider that housing, even with that big subsidy. This has meant really that the subsidy has focused on the upper end of the eligible population. The average income in one of our 235 houses is $6,500 a year. The average income in a 236 house is about $5,500. Less than 5 percent of subsidy goes to people earning below $4,000.

So it has had these two effects: first, you serve a very small portion of the eligible population, and secondly, that population tends to be at the upper end of the eligibility level. So that is a basic structural flaw.

Truth in Savings

Q. I would like to raise a point with respect to what I think is sort of basic, and this is sort of a value judgment; the ability of the consumer to view credit and savings in a rational sense and view the odds that are gained from higher rates and make the discretionary choices between savings and credit. I think really full disclosure of the terms on savings and lending must take priority in any reform measure and I don't see this in the reform measure as presented. And I think the alleged benefits—and I repeat alleged—for the consumer from increased competition among banks and thrift institutions is predicated on the assumption that consumers will have all the facts needed for prudent use of their credit and savings opportunities. Axiomatic to a free competition is truth in savings and lending. For example, contrary to popular belief, truth in lending does not require telling the truth—that is, the statute we have does not require telling the truth—all it requires is merely written disclosure. The recommendation of the National Commission on Consumer Finance for Oral Disclosure should be implemented. It should be the law of the land that all of the truth, the whole truth, and nothing but the truth should be disclosed on credit terms. Now, on the savings side, the mysteries of savings plans—with their continuous compounding, grace days, 365 day years, LIFO, FIFO, daily computing and daily compounding—will not be resolved with increased competition between savings institutions. In fact, confusion may be compounded. Freedom to confuse should be replaced by freedom to compete on standardized terms.

The Congress has before it in H. 4985 and S. 1052, the Consumer Savings Disclosure Act, which deserves attention, and I would think it appropriate at this time to encourage White House support for this type of legislation.

Written Statement of Dr. Richard L. D. Morse

Truth in Savings and lending must take priority in any reform message.

The alleged benefits for the consumer from increased competition among banks and thrift institutions is predicated on the assumption that consumers will have all the facts needed for prudent use of their credit and savings opportunities. Axiomatic to free competition is Truth in Savings and Lending.

Contrary to popular belief, Truth in Lending does not require *telling* the truth—but merely requires written discloseure. The recommendation of the National Commision on Consumer Finance for *oral* disclosure should be implemented.

The mysteries of savings plans—with their continuous compounding, grace days, 360 or 365 day day years, LIFO, FIFO, daily computing and daily compounding—will not be resolved with increased competition between savings institutions. In fact, confusion may be compounded. Freedom to confuse should be replaced by freedom to compete on standardized terms. The Congress has before both the House (H. 4985—Sullivan) and the Senate (S. 1052—Hartke) the Consumer Savings Disclosure Act which deserves White House support!

Priority should be given to standardizing the language and terms of the savings-credit market along with other needed reforms. Only if the language of the market is clarified will the consumer feel a party to helping make competition work.

Confused consumers cannot be responsible consumers. And today's market is unfortunately allowed to keep the consumer confused. Correction of this should take priority if the reforms alleged to be in the consumers' interest are to be realized.

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I have copies of this and would be glad to give them to anybody who wants them. By the way, I am Dr. Morse from Kansas State University.

Mr. Simon: I think it would be very helpful if you would give a copy for the record because, as I said before, we are going to send out the complete document of everything that was said here so you will be able to read it at your leisure.

Dr. Morse: In substance, I am suggesting that there be full support for full disclosure of savings and credit terms at all levels of transactions in the decision-making of the consumer and with all of the senses: through the ear and the eye, which is where we grasp facts.

Mr. Simon: Can I state at the outset, we have no disagreement here with what you are saying. There is good reason why we didn't include that in the legislation, though. It was discussed; but, as you say, there are bills to deal with this and if we included this in our legislation, there would be an automatic cessation of this bill on the Hill. That is the nature of the political process. They would say, oh, yes, we will look at this when we take up this whole thing. And so it would get lost.

I would urge you to keep the heat on S. 1052 and whatever pieces of legislation address themselves to this truth in consumer saving, if you will. As far as the Administration is concerned, we have no disagreement there. We are fundamentally in complete agreement with the objectives of everything you said.

Q. Well, then, do you support S. 1052 and H. 4985?

Mr. Simon: What we are now doing is working with Mrs. Knauer on some technical problems, isn't that accurate to say?

Mrs. Knauer: That is correct.

Q. I have some experience from 1959 to 1960 on truth in lending, and what we really need is support.

Mr. Simon: We are working in that direction.

Q. I would like to make a suggestion. I know everybody came here great distances and at great expense of time and I am interested in your remarks, but I assume the conference is for the benefit of getting our view too. And in view of the fact we now have only 12 minutes, I would make the suggestion that rather than your responding to our questions, because we all read your views, and we know what they are, that you give us an opportunity to respond to you.

Everybody has been biting his tongue and wants to talk and express our views.

Mr. Simon: I completely agree with you. You hear from Government all the time, and we will be delighted to shut up and learn too. I am delighted you made that suggestion.

Interest Rates on Government Bonds

Q. I want to make a couple of points; first, I think we in the consumer field ought to be in substantial agreement with the first point you made, that is, I think it is absolutely true that the little saver has really been subsidizing a lot of people in the economy for a long time and your thrust to get him a better shake is all to the good as far as I am concerned. I would encourage you to include, in that vein, osmething to be done to the interest rates on Treasury bonds and notes and savings bonds that would make them a little more effective.

A. With regard to interest rates on Treasury bonds and savings bonds it should be noted that the President has requested a more flexible rate of interest to be paid on savings bonds and that request is now being considered by the Ways and Means Committee. As you know, interest rates on Treasury bonds and notes are always set at or near the market rate and a sizeable number of Treasury bonds are available in $1000 denominations which can be purchased from Federal Reserve banks with little inconvenience and at no cost to the public.

Q. The next thing is I am glad to see that you have at least admitted the principle that, if you are going to make credit more or less subject to a free market, you are also admitting the principle that for social priority reasons, you are going to take steps to subsidize certain categories and certain markets like the housing market. That principle is important and the mechanism of the subsidy is not as important as the principle that you admit that has to be done.

Thirdly, the savings banks have always operated under what is the equivalent of the old 100 percent money practice or principle and the commercial banks have not. And there has been inherent discrimination right from the beginning in those two systems. Now you are proposing that all of the institutions be given checking privileges if they want to use them and demand deposit privileges. I am wondering what is going to happen to the economy if suddenly thousands of institutions join the checking brigade. Will it develop into an unhealthy competition, because no one wants to go out of business and they will all either add to the inflation or add to undesirable banking practices if supervision isn't extraordinarily strict.

Q. I am Clinton Warne of Cleveland—and I've got three questions that I think should be worked on.

Consumer Loans

The first one is basically a question in terms of consumer loans being opened up. Why open consumer credit to savings and loans when your objective is housing? Consumer loans at the present carry fairly sizeable interest rates. Housing, on the other hand, carriers fairly low rates. I wonder very seriously if your real objective will be served by opening a Pandora's box.

A. The objective of financial reform is not just to better serve the housing market but rather to broaden services so that the entire needs of consumers are adequately served. By allowing institutions to offer family-related consumer loans, and by allowing them to offer checking account privileges, not only will more institutions offer these specific services to consumers but also existing commercial banks will be forced by competitive pressure to offer and expand their own services to consumers in order to keep them as customers.

With regard to the question concerning the increasing number of institutions offering checking accounts and the effect this would have on the economy it should be pointed out that it is the aggregate amount of money in circulation which has an effect on the economy—not the type of institution in which the money is deposited. Any distortion caused by the shift of funds from one institution to another can be handled by appropriate monetary policy actions by the Federal Reserve.

Home Inspection

Q. Secondly, why not FHA and VA type of inspection of the houses? In other words, FHA and VA inspections give a minimum amount of protection to the consumer. This does guarantee that a 2-by-4 stays within some semblance of a 2-by-4 inside the house. I see no inspections mentioned here and that this function of VA and FHA will be continued.

Mr. Penner: It is in there.

Mr. Richardson: Only the interest ceilings are out.

Mr. Penner: That is correct.

Q. But as you phase out the use of VA and FHA, you also allow the inexpensive housing to be phased out of inspections, don't you?

Mr. Penner: There is no intention to phase out inspections.

Q. It's not in here.

Mr. Richardson: As the Secretary pointed out, interest ceilings, particularly when they are artificially low, meant the programs were phasing out by unnecessary regulation.

Q. When we sold our house, they still required an FHA inspection.

Mr. Simon: May I say here, all that is in place. We are just dealing with the interest rate.

Q. Well, then, a third question. I am worried about how the tax credit works for an individual. How are you going to specify that particular area?

A. An individual who invests his savings in a mortgage—for example, holding a first trust on a home which he sells—will be entitled to a tax credit of 1.5% of the interest earned from that mortgage.

Regulatory Agencies

Q. Lastly, I wanted to get involved in the advantages of staying inside a Federal Reserve system and some tight controls if you permit the development of what I call the old holding company system—the New Jersey style against Delaware, where you go to the least common denominator inspections? I mean, a good many of the banks will put real pressure on state legislatures to allow a weakness of this and then fairly quickly another group will say they would like to have a little more leniency in this area, and then fairly quickly we will find ourselves losing instead of gaining by allowing a new group of groups in.

A. Although the consolidation which you describe is always a possibility, the fact of the matter is that the consensus is that multiple regulatory agencies have led to increased innovation and increased responsiveness to public needs and services. In fact, regulatory agencies have been most negligent when they are the sole or dominant regulatory body such as evidenced by the precarious shape of our railroad, maritime and energy transportation industries.

Credit Controls

Q. Finally, and while I am on this, how do you push out credit or how are you going to control credit when most of the banks right now are running from $1 to $3? For instance, in our Cleveland area, our major banks are not running at the rates you are specifying here of up to 17 percent. They are actually running much higher than that, or about 33 percent. I have a feeling that you are going to find some major shifts in this area and I don't think that these have been looked at or inspected at least in the details of this particular material here.

Mr. Simon: I promise they have, but we will respond to that.

A. The situation you cite in Cleveland is new to me but we do have the facts and figures for the country-at-large and for easy comparison I will give you the percent of total assets that residential mortgages represent in a bank's portfolio.

Under $1 million	1.56%
$1 to 2 million	4.71%
$2 to 5 million	6.95%
$5 to 10 million	8.53%
$10 to 25 million	9.94%
$25 to 50 million	10.29%
$50 to 100 million	10.70%
$100 to 500 million	9.11%
$500 million to $1 billion	9.30%
$1 billion and over	6.67%
Total	8.40%

If the mortgage-to-asset ratio in each size category with percentages of less than 10 percent were increased to 10 percent, mortgages would be $75.0 billion, an increase of 19.96 percent. That percentage increase is approximately the same as the growth of residential mortgages of commercial banks from 1971 to 1972. Assuming that to be the same from 1972 to 1973, increasing the mortgage-asset ratio to 10 percent almost doubles the increase in commercial bank mortgages. Although in 1972 commercial banks accounted for only 15.42 percent of residential mortgages outstanding, their increase to ten percent would be equal to 3.06 percent of that figure.

We have a tremendous potential by enticing commercial banks into more active participation in the mortgage market and it is my belief that most banks will increase their mortgages to well over 10% of their total assets.

Government Spending

Q. My name is Virginia Cutler—in Utah we have a very remarkable welfare system to take care of the indigent, the poor, the aged, and everyone who needs help, but every individual receiving that help feels something has to be given back. And I think it might be worthy for the people who are working on this project to investigate that, because it helps to develop human dignity, which I think you are taking away in your program.

Now, I would like to ask a question in relation to your comment that this monetary policy has to go right along in tandem with the fiscal policy. We haven't heard anything much about the fiscal policy yet, and I think that involves cutting government spending, doesn't it, or raising taxes? It looks to me like everything that is being planned will raise taxes. We will have to do that, won't we, unless we take the money from some other part of the budget?

And I love your idea of having housing as a priority, but are we going to take money away from our spending on armaments and all of that kind of thing so we can do this or just what is going to be done about that, about government spending? Can we cut down government spending so we don't have to raise the taxes?

Q. I think the objectives of the recommendations on the whole are excellent—my name is Arch Troelstrup from Missouri—but I am concerned a little bit about looking over the hill. Is it possible that, as time goes on, that there will be fewer but larger financial institutions—call them whatever names you wish to—and that as time goes on, aren't there going to be fewer and fewer, regulatory bodies —possibly only one instead of three or four—and then you will have the problems which the history of such concentration have shown us. And so I am concerned that we won't have people like you, perhaps, around here to push and act as watch dogs because when you have a marriage between the regulatory and the regulated, eventually we know what happens. So what is to prevent this unholy marriage?

Mr. Simon: We looked over the hill, and we will answer that question, too.

I do not believe that I agree with your assumption that governmental regulatory bodies have a higher mortality rate; in fact, I know of few, if any, regulatory bodies that have actually ceased to exist. States are very jealous, and rightly so, of regulatory prerogatives as is the Federal Government of its prerogatives.

(At 12:30 PM, the matter was recessed to reconvene at 1:00 PM the same day.)

AFTERNOON SESSION

1:00 PM

Mr. Simon: Let me just make a few brief announcements. I think somebody made a darned good point that some people have come a long way and they would like to have their questions aired and responded to. As I say, we are going to answer everything in detail for the record, which you will receive in the mail. I have to go, unfortunately, at 1:15 because I scheduled loads of other things for this afternoon. Howard is going to stay and Jack Carlson and everybody else as long as they can. Howard will stay just as long as you have questions to ask.

Somebody asked if we couldn't make our answers briefer. Believe me, I am not trying to filibuster this, and Howard isn't. This is, as I have said several times, a very complex subject and when you ask one question, it interrelates with so many other areas that it is impossible just to give a yes or no answer, and I think you would be just as dissatisfied on the other side if I just said yes to a question or no. Yes, we have looked at this or that and are satisfied. You wouldn't like that either. You would say, why? And we would have to explain the thousands of hours that we spent discussing all of these questions and changes before they were finalized, and finally reduced to paper.

Also, when you read this material on your way back home today, I imagine you are going to have further questions, and I would urge you to write me or Howard or Virginia because we are in constant contact and will respond to your questions and your concerns in every single area because we want to work with you and attempt to make compatible all of the differences of opinion we might have. I am sure we are going to have differences of opinion because there are areas that are very complex. I would like to add how much I have appreciated the opportunity of being able to be here with all of you. I live across the street in the Treasury—well, at least that is what my wife thinks, and I am available there when you come to Washington, and if you want to come and speak to me about any problems at all with relation to this or otherwise, my door is always open and you will never have any trouble getting in and chatting. I promise I will be as responsive as I can be.

Now we will continue.

Credit Union Effects

Q. Very briefly, has the full effect of this with the credit unions been investigated because they will be affected by what happens to commercial loans. The savings and loans will give out more consumer loans, you know, they are going to definitely be affected very greatly by increased competition. I have seen nothing in the report that indicates this has been given examination thus far. I wonder if any further trade-offs have been thought of in terms of the credit unions?

Dr. Beasley: We have looked at the credit union effects. As you know, the credit unions are the fastest growing type of financial institution, just a phenomenal growth; 15, 20 percent a year, which is far outstretching all of the others. And the very crucial point with the credit unions—and perhaps why some believe they didn't get all of the expanded powers they would have liked to have—is that they are a tax exempt organization. They pay no income taxes.

Most of the credit unions—I will go out on a limb and say 98 percent of them—do not want expanded lending powers, do not want checking account privileges, and so forth. They are fulfilling the needs of the employees of the company and their members quite adequately and we were afraid to jeopardize the tax exempt status of the entire credit union movement by giving very large incremental powers to the credit unions themselves.

We did provide them with a central discount fund, which is a backstop, if you will, when you have a plant closing or you have an emergency situation in a credit union so that the people are taken care of.

We are doing some housekeeping measures, cleaning up what their loan maturities can be, giving them variable rates they can pay, so that they may actually have certificates of deposit, and so forth.

Thirdly, we provide a mechanism by which a credit union, if it wants expanded powers—and there may be half a dozen in the United States that do—so that they can convert to a mutual thrift institution and get all of the expanded powers. They will be taxable as any other mutual institution. They will not taint the rest of the credit unions by their expansion of powers.

So this is the great movement that came out in the last, say 15 years, and I think it is taking care of itself.

Q. Your central discount fund for credit unions, why did you limit it? You don't limit the liquidity of the banks or the savings and loans. I am curious as to why you limited the central discount of credit unions to temporary situations.

Dr. Beasley: Because the concept of a credit union is a fellow employee loaning to a fellow employee, a riveter to a riveter, that type of common bond. It is limited to temporary liquidity distress situations so that a credit union does not have access to the capital markets per se through the central discount fund, cannot acquire funds on which to grow and expand, because that violates the concept of a fellow worker loaning to a fellow worker upon which the entire tax exemption is based.

If you get it too broad, so the credit union actually borrows from the capital market as a whole, you lose the whole basis for its tax exemption, and we don't want to jeopardize that.

If it wants greater facilities, let it become a mutual thrift institution and have the Federal Home Loan Bank advances.

Q. Excuse me, but what you are doing in that case is giving the credit union the option of not being a credit union any longer. Do you feel that solves the problem?

Dr. Beasley: Yes, ma'am, that is exactly what we are doing because if they choose the option of not being a credit union, they should be taxed as any other financial institution is. If they want to remain a credit union, then they retain their tax exemption.

Saving & Inflation

Q. I have a rather basic question frequently asked by consumers. The name is Lillian Mohr of Florida State University.

I want to know what is the point of putting monies that one has accrued in a savings account when from one year to the next purchasing power is being lost on this money. Here I am thinking of the young couple trying to save money for a down payment, for example, so that of course the purchasing power is lost on this. I am thinking of those of us who advise low income families, telling them to put a dollar in the bank this year, and then next year it is worth only 90 cents, and the interest is taxed. They just don't understand this.

Some years ago, Sylvia Porter reported on the options open to investors in Finland, whereby a saver can opt to have all of their savings brought to the consumer price index or can have half of it tied to the consumer price index and the other half at 6 percent interest rate. I wonder if anyone has considered an escalator clause in connection with savings in the United States?

Dr. Beasley: I think this is what we have. If you remove regulation Q and let the interest rate paid on savings move over time in your various economic cycles, the interest rate paid on savings reflects the current or the expected inflation rate, because an interest rate not only is a payment for the use of money, but you have an inflation premium that compensates you for being paid back in cheaper dollars. That is the normal course of interest rate movements.

Q. May I comment here? Senator Pearson in the 92d Congress introduced such legislation for the elderly.

Dr. Beasley: Well, I think our current system is adequate in that, if we let that interest rate move up and down so that a market rate of interest is paid on savings, that is adequate. Your comment about a person having the ability to take a floating rate that may be tied to the consumer price index as opposed to a fixed rate, well, that is the mechanism we have now when you buy a certificate of deposit. If you will, you could put half your money into a passbook savings that could go up and down over time and the other half into a certificate of deposit, which is a fixed rate for four years.

There are certificates for three months, six months, four months, ten years, and—

Q. You are saying I should recommend this to the low income consumer I work with?

Dr. Beasley: Well, the invidious discrimination that we have now is that we only allow a 5 percent interest on passbook savings. I have used that example, because my grandmother has all her money in passbook accounts because she feels that she has to be able to draw it out if she goes into the hospital. Well, that is just not right when the inflation rate is 8 percent.

The answer is to take off the ceiling and let the banks pay her the rate necessary to keep her money in there, or else she will take it out and put it somewhere else.

So the answer is taking off that ceiling, and inflationary factors will be reflected in the interest paid.

Tax Credit vs. Direct Subsidies

Q. I like generally what Secretary Lynn had to say, and particularly that idea of removing the ceilings on savings and loans. I would like to make some comments primarily on the tax issues presented here. It seems to me it is inappropriate, or at least there are serious questions about whether or not this is the most effective and efficiently way to get money into the housing market. For example, under this proposal, we will be compensating commercial banks and they will be geting a tax credit for the loans they are already making. And right now they are already making the loans, and I think it ought to be preceded by some serious study as to whether this is the most efficient way of doing things.

It may well be more efficient simply to provide a direct subsidy by some means which would pay the borrower the difference between the rates that he could afford to pay and the current rates.

And it seems to me in addition to the question of efficiency, you have to have some real questions of the simplicity and the fairness of the tax system. Now, the Nixon Administration, as I understand it, has embraced the idea that the tax system ought to be more simple and it should be fair. It seems to me to be inappropriate to go ahead and give tax benefits to people who make their money in banking. These are the people in our Nation who least need tax benefits.

It seems to me we ought to give the benefits to the people who need to buy a house in the form of direct subsidies.

Secondly, I would like to suggest that by having an annual review of any sort of a direct subsidy program through the appropriations process into the budgetary process, you provide what money is needed consistent with current market conditions. If we go ahead and write these tax benefits into the law and the interest rates go down, then we are spending a lot of money in the form of tax subsidies for something that we don't really need. So if it were in the appropriation process, we could go ahead and cut it off.

All right. I would like to move to something that has not been talked about, and something that is important and that is the question of down payments. Most people that I have come across can pay the monthly payments if they can get the loan, but they can't come up with the initial down payment. That is where we ought to concentrate our subsidy. If you can help people first get started, then that gets them over the first hump, and if the low income consumers can't pay the high interest rate, let's give them some sort of subsidy. I think the Administration can also do some things that won't cost the government anything, and that would be to reduce the amount of down payments.

Dr. Beasley: Now, let me address your first question at this point. It will be the first to admit that this tax mechanism, the tax credit, is not the most effective or most efficient or best allocator for the housing market. Theoretically the direct delivery system to the buyer is the way to go.

If you are designing a perfect system, you don't go through a financial intermediary and provide a subsidy. You deliver it directly. There is no question about that.

However, we don't know how to do that. As we discussed earlier, the delivery system is very important and under the time frame we are talking about, and keeping in mind the housing problem, if we think it is a social priority investment, in the near term, in the next three to five years, we simply don't know a more effective way than to do it through subsidizing the extension of credit.

But I am the first to admit—and the Hunt Commission pointed this out—a direct subsidy is the most efficient way; however, a tax credit probably is the only practical way to do it under the existing system we have.

Mr. Carlson. We are not starting from scratch here. We already have the bad debt arrangement in the S&L's with about half a billion dollars in terms of what the taxes would otherwise be. So you've got that equity consideration and also this overriding objective of wanting to provide housing for Americans. Those two together would dictate that the other institutions that can enter into the mortgage market more effectively, if they are treated evenhandedly, should be invited in by giving them the tax benefit. Maybe the tax arrangement should be in a better form in terms of a tax credit instead of this bad debt arrangement that has some distorted incentives built into it.

By the way, though, windfall gain that you talk about to commercial banks is not very large and the biggest gains will probably be in the insurance company areas. There will be some gains in the individual area, but they will be relatively small given the windfall you have now built into the tax system. So we are not starting from scratch at all.

Q. With respect to that, just because the savings and loans now have a tax preference and just because we have done something unfair for one group, I don't think we ought to do it for somebody else. I'm a lawyer, and I don't think that in my business I should be paying more taxes than bankers. And just because savings and loans have an advantage over me, that doesn't make me any less willing to accept a banker having the preference over me. I think we ought to all be treated alike.

Mr. Carlson: I think the overall objective is not to protect savings and loans or commercial banks. I think the over-all objective is to provide adequate housing and consumer services. And if adequate housing is provided through a number of different instrumentalities—and we do want to encourage it —we should provide equal encouragement no matter which instrumentalities it comes through.

Closing Costs

Q. Rather than using up everybody's time, let's move on to down payments. I would just like to make one comment on something I think the Administration can do even though it's a rather small point when figured into this total picture. I think closing costs could be appreciably reduced by having some legislation or having the Home Loan Bank Board, if it has the authority, issue some regulations that would prohibit the lock-on attorneys' fees that the directors for the various savings and loans have.

We already had the Justice Department move in the area of cracking up the minimum fee schedules, which I think is good, but I think now what we need to do in order to have competition—and I know competition in the professional fees can have bad points as well as good—but I think closing costs are unnecessarily high. I think they could come down if something was done to get away from this practice that savings and loans say to the people, "Well, you have to use our lawyers." I think that is wrong.

And incidentally, I will violate the practice thus far and give my name. My name is Wendell Lindsay from Baton Rouge, Louisiana.

Mr. Penner: Let me say first, we are looking at the last point you raised very carefully.

Another thing that may bring down payments is the reinsurance of Private Mortgage Insurers. The PMI loan, as you know, carries a down payment of only 5 percent and the spread of them has greatly reduced the down payment burden.

Regulation Q

Q. I am Harold Wolf of the University of Texas and I would like to, if I can, just disarm the Committee first by telling them I am in agreement with most of their proposals, but there are two areas I would like to make some comments on. One is with respect to elimination of Regulation Q.

Why did you choose a 5-year phase-in to eliminate Regulation Q? Secondly, have you made any studies indicating how this may affect the structure of the savings and loan industry, and the commercial banking industry for that matter? Also, if it is true, as many of us suspect, that Regulation Q is a subsidy not to homeowners, but to savings and loan associations, it may change the structure of the S&L industry rather drastically if it is eliminated.

Finally, if establishment of NOW accounts result in elimination of all other accounts and we have a rather sudden and drastic switch from S&L savings accounts to NOW accounts, can the Federal Reserve provide the additional reserves required for this without generating a great deal of inflation?

Dr. Beasley: Well, very simply, the reason why we settled for a five-year elimination is that we couldn't get a shorter period of elimination. The Hunt Commission recommended an immediate elimination, but with a stand-by arrangement to be reimposed. There is absolutely no way politically you are going to get removal of Regulation Q any sooner than that. We settled for a five-year compromise, if you will, as being one of the tradeoffs in the package. We saw the fight coming last spring. And as you know, there is an extremely strong lobby up there. Many people argue that if you eliminate Regulation Q, that everything will go haywire. That is simply not the case, but we have decided that the five-year was probably the best and most reasonable number we could pick.

There is nothing magic about that. We did look at the effects on savings and loans. We had a very good study done by Princeton University. They found very little effect on the savings and loans dislocation of funds and so forth.

Mr. Carlson: I think that people understand now that the real rate of return from passbook accounts has been going down and consequently they are less apt to keep them in there with such low rates with a ceiling on top of them. Consumer ignorance, in a descriptive sense, is being overcome and people are starting to disintermediate where they might not have disintermediated in the past. Consequently I think the subsidy you talk about was due to people's ignorance, and that is being removed rather quickly because people understand what the profit is now. And even if they didn't I think the Government has the responsibility to protect people from being excluded because of the lack of knowledge about what the real interest rates are.

Q. I am in favor of elimination of Regulation Q. Don't you think we ought to face the fact if we do this, it may very well result in a lot of small S&Ls being merged or bought out because they can't compete and that the flow of savings will be to the big efficient savings and loans in the cities in areas of rapid growth? Don't your studies show that?

Dr. Beasley: That is already happening to a substantial degree—

Q. That is right.

Dr. Beasley: —but the real question is whether this will bring it on any faster, and our answer is no, it won't. The S&L will have to determine what it can do, what savings it can provide to its community, and tailor-make its various services to exist in that community. And if you are telling me we ought to keep savings and loans alive—

Q. I am not.

Comparison with Hunt Commission

Q. Dr. Beasley, just for the record, and I don't want you to take the time to answer today, but could you give us some reasons, when you do answer this, why the Interagency Task Force ignored the Hunt Commission's recommendations that all of the recommendations be treated as a package, and not piecemeal? None of the financial regulatory structure has been taken up by the President's recommendations and that was a major feature of the Hunt Commission report.

Dr. Beasley: I will give you a three sentence answer. The package, and that's in quote, that the Hunt Commission addressed really encompassed the core recommendations, and not all 89 recommendations, just the real kernel of it. We think that we have addressed that particular part of it.

The regulatory section, very frankly, was set aside because it becomes unscrewed and falls off if you do not take the Federal Reserve Board out of supervision of the state member banks. Now that was part of the Hunt Commission; make everyone a mandatory member of the Fed for reserve purposes, but remove the Fed from supervision. This was simply too big of a project to undertake. We looked at the restructuring of the powers of the institutions and how a bank relates to its customers. But it is just too big to lay on top of that the interrelationships of the agencies here in Washington with the various institutions and so forth. Perhaps that is Phase II of the package next year.

But we simply had to get it to manageable size. Some people would argue it's too big already.

Q. You don't indicate then that it's discouraged completely?

Mr. Carlson: No, on the contrary. Certain pieces of it are under active consideration.

Consumer Loans

Q. I am Clinton Warne, and again, as long as we are getting things into the record, I would like to get a couple more things into the record. One, what is your definition of consumer loans? And also, a personal suggestion, as long as you are aiming for housing and you allowed them a 10 percent exemption, why is it specifically oriented to housing only?

Secondly, while it's not in this particular report, I don't think, I would like to know if you have done any sort of work on the marginal alternatives that you are going to be affecting as you subsidize one area, such as housing? For example, I'm going to use the argument of automobiles next year, which are going to be hurting as a result of price increases. As I understand it, Chrysler has now asked for a second price increase inside of three weeks. I suspect if you have subsidized housing, that also you will have other parts of the economy, like by this Christmas time or a little afterwards, asking for such support for them too. And I think alternatives, marginal alternatives for these savings and loans and for banks should be looked into.

Lastly, why has Regulation Q, as you stated so specifically, not worked? I think it has worked in the regular time periods, that is to say, if you use the word regular in the economic sense in parenthesis and the exceptions that you are pointing out in 1969 and so on, treated as exceptions, it has worked regularly rather than categorically stating it has not worked because of the exceptions—

Dr. Beasley: All right. I will answer them very briefly.

A consumer loan is anything a consumer wants; an unsecured loan for, an automobile, an appliance, musical instrument, school loan, installment loan, an unsecured property loan.

Q. Unsecured by real property, you mean?

Dr. Beasley: Yes, it could be secured by the tangible piece of property, but it can also be unsecured. It could be strictly on the credit of the borrower.

You bring up a good point and perhaps it is a misconception, but this package is not designed with the sole objective to help housing. That is one objective. We hope housing finances will be facilitated by a more efficient functioning of our financial institutions. Our real goal is to provide a more efficient system; provide the consumer with loan availability for whatever he wishes, not just if he has a housing need, but for all other needs in addition to housing. That is what we are trying to facilitate.

I don't think automobile loans will be damaged next year per se because the trend in financial institutions is to provide the family with one-stop financial services, that is, they want to provide the family with all of their financial needs. And S&Ls will try to get into the consumer business. So it does help the community and it also helps their earnings to some extent, and it certainly helps their cash flow since the loan is paid off yearly rather than paid off over 30 years.

Your last point on Regulation Q, and why it has not worked almost by definition the answer is: in periods of normalcy when the ceiling is above the market rate, there is nothing to work. But Regulation Q was put in to keep the rate from going up and that is exactly the time when it should be going up.

Effect of Tax Credit on Housing

Q. I don't know what you think about this, but have you taken any consideration differentiating as to the quality of the house mortgage and your mortgage tax credit? For example, distinguishing between the mortgage to the person who is building the $200,000 estate versus the person who would feel as though the heavens had fallen in if he had gotten an $18,000 estate?

Dr. Beasley: Yes, we have considered it, but no, we don't know how to deal with it and that is the most honest answer I can give you. The wish would be, if you could design a perfect system, to exclude people who already have a mortgage and hence are getting a second home or resort. Incidentally this is only 4 percent of the market anyway. Then again that raises a whole host of questions like what exactly is this housing priority anyway? Do you subsidize the mortgage when a person mortgages his home to send his kids to college or he mortgages his home to start a new business. Is that not too a social priority loan by our definitions? S&Ls do make mortgages for just those purposes. No, we don't know how to deal with it just yet.

The beauty of the tax credit, even though I will admit it is not the most efficient subsidy for housing, is that it at least gets into the open in a very visible form the subsidy that is being provided for housing.

Right now even many S&Ls don't even understand the subsidy they get and don't realize the consequences, and hence it is difficult for them to translate that into a lower interest rate on mortgage loans. But by having a tax credit, you get it out into the open and it's easy to calculate, and a person can very easily transfer the fact that he is getting a subsidy from the Government of 3½ percent and that means 25 basis points, or whatever, depending on the rate of the mortgage. And hence, he would feel willing to accept a quarter of a point less on this mortgage.

Q. I would like to follow upon that same theme. Admitting that you cannot use this financial restructuring as a delicate social instrument, nonetheless we are confronted with the fact that 40 years ago we were told that a third of the Nation was ill-housed. We have had a mammoth Federal housing program ever since, and a part of the Nation is still ill-housed, if not more—

Mr. Carlson: But definitions have changed over that period of time as to who is ill-housed.

Evaluating Housing Progress

Q. All right, but the mammoth Federal housing program has not really solved the problem while, on the other hand, it has been probably the most dominant influence on the shape of our cities, of our communities. It has created what we call suburbia, it has exaggerated and solidified some of the racial imbalance in our communities and it has done some very undesirable things. We see that now.

I would hope that, in the many bills that will have to go through the legislature to accomplish this financial reform, that there should be provision for some evaluation from the consumer housing point of view of it, asking questions, like is it serving the need from the consumer point of view?

I mean, let's take readings before 40 more years go by. Perhaps we should have an annual report as a minimum.

Mr. Carlson: That is a fair request. We ought to evaluate what we are up to, however, it is very difficult to measure what will happen and what did happen and what the difference is because to decide the relationship, let alone the measurement, we just don't have the theory to do that.

Q. Well, everything is difficult, but if you don't have the government authority to collect facts to analyze, then the situation will become even more difficult. We should have an evaluation process. You are giving a grant, in effect. In other words, the analogy is that you are giving a grant to the savings and loans and mutual and thrift companies for putting their investments along these channels. All right, then, that grant should have built into it an evaluation process.

Mr. Carlson: Let me ask you, what is the elasticity of demand? What is the sensitivity to the interest rate in housing? How many more housing units will you get by reducing the price of housing, or at least the interest cost by half of a percentage point? Has the measurement of that over the last thirty years changed?

Q. If you feel what you are doing is not going to be effective, then it will cause some of us to be cynical.

Mr. Carlson: We think it is, but it will be also a judgmental thing because econometric analysis is not that precise. We can't isolate cause and effect that precisely. And of course, judgmental reports are written and are useful, but—

Q. I'm saying, if you get the data and make it available to analysis in universities and government, that may be helpful, but there should be some provision for efforts in that direction.

Mr. Carlson: And I agree with that.

Q. I think those financial and legal authorizations and responsibilities should be fixed.

Q. You know, I think that also is a good point to follow up. The tax credit for mortgage money has no restrictions on it?

Dr. Beasley: No, sir.

Q. So that a bank or an institution that gave a mortgage, has it not even a restriction that it be a home instead of an office building?

Dr. Beasley: Residential, yes.

Q. It has a residential restriction?

Dr. Beasley: Yes.

Q. But it could be a big luxury apartment house?

Dr. Beasley: Yes, just as the S&L's make today.

Mr. Carlson: Or a luxury home.

Social Priorities

Q. Following up on the last question, then your social priority hasn't been really spelled out to be a real priority in terms of the housing needs of the country as you have explained it so far, is that correct?

Dr. Beasley: Well, you have a conceptual problem of defining just what the social priority is, and can you tailor make that social priority so narrowly? In other words, we say it is housing and say it is residential housing. Well, is it just residential housing for the poor, or is it just for the first home rather than the second home, or is it for single unit as opposed to multi-family? I argue that there are limits to which you can further and further narrow that definition and still have an efficient subsidy program without bundles of paper work.

Q. I would support you on that.

Dr. Beasley: Now, a residential mortgage gets a tax credit. What do you do with it if it goes to a second home? Well, that is not the best social priority, but it probably outweighs the cost of trying to so specifically tailor this tax credit. This isn't the most effective and most efficient subsidy, but it is probably the best one we have.

Dr. Richardson: We don't want to limit ourselves to using one instrument to solve all of the problems. I think it is admitted, and everyone seems to agree, that this is just for the generic area of housing, and we don't seem to be able to design or define this in an effective way to deal with a narrower definition. If it is housing and if it is also housing of moderate or lower price, then we hit that with another instrument, and the net effect is that we get what we want. That gets back to the same conception we have been discussing, that with the whole set of recommendations here, it takes a package to do the job instead of trying to force one instrument to do it all.

Mr. Carlson: May I put this into perspective? We are only talking about very small tax windfalls that will go to the wrong people, a very low amount. If you talk about the tax windfalls associated with the deductibility of interest and real estate taxes, the total tax avoidance is huge. This tax credit is relatively small in the total mosaic of subsidies to housing.

Truth in Saving

Q. As I listened to you, I have been trying to get the drift of what is going on, and I get the feeling that there appears to be a hesitancy or a reluctance to deal with a very crucial area, truth in savings. It seems to me, we are talking about overhauling financial systems, and we are talking about making it possible for consumers to earn more monies off of their savings accounts. Yet there appears to me to be a hesitancy to even deal with that to any degree. It seems to me, if we are going to be talking about helping the consumer get the most and maximize his dollars, there ought to be more outspokeness about truth in savings to some degree, as opposed to referring to House bill such and such, and letting the Congress deal with it. It seems to me this ought to be part and parcel with financial reform. By the way, my name is Harge from Cleveland.

Mr. Carlson: We have Senate Bill 1052, and House Bill 4985; both are in the clearance process. We do have some technical problems associated with it, and those are being ironed out. The Administration certainly has not been negative on it, and supports it, but technically there are some problems that have to be worked out. We are not getting very strong pressure from the Congress to move it. So it is both supply and demand. We have to take this into account as we respond, but it shouldn't be interpreted that the Administration is negative on that.

I think one of the authors of that bill has indicated that there are obvious technical problems on what you reveal and how much paperwork is associated with revealing it and that itself can be a cumbersome process—

Q. May I react to that? If I read this here right, I did not even see it in this book here (on financial reform).

Mr. Carlson: It is not in that.

Q. So that gave me an indication that there was no sensitivity to it at all. The only way I can feel there is any sensitivity is if I read something in news releases or read something in writing. If I don't see it, I must assume there hasn't been any.

Mr. Carlson: Your point is it should have verbal truth in lending as well as written?

Q. No question about that. If we have 100 different ways to figure interest on quarterly, yearly, semiannually, how in the world are we going to be sophisticated consumers? To talk about the overall system without taking that into consideration is ridiculous.

The other point is, are there any assurances that the point system will be dropped?

Dr. Beasley: Yes, it will be prohibited, as it stands now, except for a one point origination fee, which HUD does not consider a true point. That is just the fee, and that would be maximum. Your origination cost could be no more than 1 percent of the loan.

Bank Priorities

Q. O.K. One last question. What assurances do we have that commercial banks will invest more money in community betterment? Heretofore, savings and loans were the ones who made investments and improvements in issuing mortgages and things of that nature. Larger commercial banks have been a little hesitant, one, to give loans in this area, particularly for low-income consumers, and in the inner city. I am talking primarily about blacks, Spanish speaking people, Appalachian whites, etcetera. And it seems to me with all of the vast resources that commercial banks have, they could do a great deal in helping to bring about a quality of life that is desirable for human beings. It seems to me again that in this report, I do not see that. I do not get a feel other than tax credits being used.

Now, are there any assurances that the commercial banks, in receiving tax credits, will offer some kind of reasonable percentage to help change the lifestyle in the urban cities in order to get rid of the stagnation and decay there?

Dr. Beasley: I don't think we can honestly provide you with assurances per se in quantitative terms, unless you wish to enact something that would force institutions to invest in certain activities. I also have problems with the operational meaning of "community betterment." Obviously S&Ls make many mortgages. They make many to low income groups; rehabilitation loans. I don't think you can charge, though, and I am not an expert in this—that banks have been lax in this. Banks provide the money to start minority businesses and consumer loans in the disadvantaged communities. And they are making many mortgages. I don't know quantitatively whether there are more or less, but, anyway, this is once again a question of do you provide the better quality of life via the financial institution system or do you design the most perfect system you can, which allocates monies, and, if something is lacking, do you deal with it and tailor-make a specific remedy, i.e., give supplemental income to those areas or provide grants to start businesses and so forth?

I think it is the latter, that you tailor-make the solution to the problems, rather than burdening the entire financial system.

Q. You couldn't tie in some of those additional subsidies or something else? In other words, you said there is going to be a 2 percent gain, and then they get a fairly sizeable tax of 180 points, or something that was quoted—

Dr. Beasley: That is the average aggregate.

Q. I was wondering if some of that couldn't be tied very specifically to loans by income levels, or some other demographic feature, and, secondly, you could get to the urban and the rural groups both by specific pinpointed actions, rather than right now a general hope or a social dream, as this thing is now being worded.

Dr. Beasley: Well, the most honest answer is yes, a tax credit could be designed to fulfill the criteria you have outlined, but whether it is practical and whether that gives you the best bang for your buck I would doubt.

Once again, I go back to the point, if you have to deal with that particular situation, do it on a direct subsidy, a direct appropriation from Congress each year rather than writing rules and regulations and having stifling restrictions under your banking system.

Q. You have the rules now to favor one thing, so I don't see why you don't go ahead and write some rules to favor more things.

Mr. Carlson: To just be completely candid about this, I think we have many other institutions we are using, like Farmers Home Administration subsidy programs for low income farmers. We have this tandem plan with $3 billion that I talked about. We have many other programs where the subsidy level is much, much higher, including a subsidy for elderly poor, and other poor people, to give them a cash assistance. These are more powerful engines than this tax credit, which is relatively small, providing an incentive for overall housing.

Now, you talked about banks being interested in mortgages. When their nearest S&L competitor has a 16 to 30 basis point advantage, because of the bad debt tax loophole, the bank is going to be discouraged from entering into that market. So that if you provide equity and they both have the same incentive to invest, then you are going to draw that bank more into the mortgage market than it is now, and that really is what is occurring here. You shouldn't make this particular provision carry the whole burden of redistribution of income in our society. We have many, many more instruments for that particular person.

Reform Package vs. Specific Focus

Q. My name is Eunice Howe. The record on implementing Presidential Commission reports with legislation isn't very good. You tell us that the core of the Hunt Commission report is embodied in the recommended legislation. Now, just as a very practical matter, what chances are there of this going through? Are we all really wise in sponsoring a package that is this large and encompassing rather than focusing on the one thing that consumer people might agree about as being the most important?

Dr. Beasley: Well, I think the answer to that question probably lies within this room. Without large and unified consumer support, in all candidness,—this package per se will probably not pass Congress. At one time we had hoped to pull together all of the various industry groups: the savings and loans, the banks, the mutual savings banks, the consumer groups. We all talked with you over the past eighteen months. We have had continuing conversations with you. We thought we could get them all in a room together and say, "Look, this is probably the best for the industry, and perhaps not each and every one of you gets everything you want, but overall, it is the best."

Anyway, the S&Ls like the benefits, but they don't want to pay the costs. The banks don't want to give up the exclusive checking account privileges. But at one time we thought we could get them all together and march them through Congress. However, the industry groups now are taking the position "We think we can get these various powers without paying the costs." So the S&Ls, who say we like 8 parts of it, but we don't like the other two, decide not to support it. The banks are not going to support it. The mutual savings banks are not either.

So the one common denominator lies within the consumer interest. If this group does not get together, I think this will go piece-meal. It may fall apart. The S&Ls will rush in with their particular bill that has their benefits and says nothing about the rest, and the package will be defeated.

I can tell you very definitely they don't want Regulation Q to come off. The overall plan will be defeated because the banks won't get behind it. The mutual savings banks likewise will come in with their proposals and they won't get through either because the others will gang up on them, so nothing will happen. So we will keep Regulation Q and we will not allow Federal S&Ls to make consumer loans and we won't have NOW accounts. We won't have any of this.

This is something that is very crucial to us and we need this unified support by the consumers.

We would probably be the first to admit this financial reform package is not 100 percent perfect, but you have to realize that it has to be politically passable, and the banks are an extremely powerful lobbying group up on the Hill, and the S&Ls are. I tried to point out today why certain things are not in there to the degree perhaps we would like it. It is just politically impossible.

But it is better to get something that is conceptually sound and is, in our opinion, to the betterment of the community as a whole and the consumers, than to have nothing. So I have to beg your questions. I do not know what this group is going to do. I don't know what the thoughts of other consumer groups are going to be.

But the Congress is starting to listen to the consumer groups and the S&Ls. The banks thought they could prevent NOW accounts in Massachusetts but they were wrong. It wasn't the mutual savings banks that were so powerful that saved it in those two states; it was the consumers. I bet the consumers started talking to their congressmen about it, and they started to listen, and that is the true driving force behind all of this legislation.

Q. That is a very articulate comment. I wish you had started the day out with something like that. I asked that question because I had experience with a man who is very knowledgeable in this field, and he backed me up against the wall, and he said, "If you people who are self-constituted consumer representatives really want something, you ought to go after demand deposits in Federal legislation and forget the rest of all of those recommendations." Well, he was a banker, and so I was a little skeptical of his advice and that is why I am trying it out on you. Is it really worthwhile, do you think, to force us all to think of passage of the entire package, or should we focus on one particular interest?

Dr. Beasley: I think the consumer interest is not served if you go after one particular part. Why get just checking accounts, NOW accounts, when you are prohibited from having consumer loans from a Federal S&L? You might as well go after the total.

Q. Dr. Beasley, I would like to pick up on that. You mentioned these truth in saving bills—

Dr. Beasley. S. 1051?

Legislative Process

Q. Yes. I gathered from something that Secretary Lynn said this morning that is only a matter of time before the Administration is on record as favoring the bill—and I am not talking about the intrinsic worth of the bill right now, but just a matter of tactics—anyway, I have talked to a number of people behind it—including people in both houses, and the people who have helped write the bill—and they say what they need most of all is a boost from the Administration saying we are for it. And what I'm saying is, what kind of time frame are we talking about, and do we have Administration support? I want that on the record because the people who need it more than us in this room don't know if acceptance by the Administration or endorsement is pending, if indeed it really is.

And here again I think the tactics are at fault. I agree with what you say. You never get all you want, I mean, democracy is one long interminable debate. I am reconciled to that point. But I do think sometimes communications fall flat and I think that has happened in this case. Maybe it is not the most important bill on the Hill, but if the Administration does plan to endorse it, why keep it so secret?

Mr. Carlson: First, let me say we are responsive to the Congress. We have a process for clearing bills that can take one day or it can take six months. Our normal procedure is 30 days in order to give other agencies around the government a chance to comment on it, and for us to go ahead and evaluate those and the bill finally goes up to the President or his key assistants to decide whether this will be an Administration bill or be supported by the Administration. The bill is in our process of clearance now. My people tell us we don't have any strong pressure from the Congress to move on this, though. In fact, to the contrary, there is not an awful lot of interest up there and we are not about to go force ourselves on the Congress.

The process Congress uses with a constituent group takes up a considerable degree of their time and they don't have time to work on a particular bill that might not be uppermost in the minds of their constituents.

Q. That is not the way the Secretary seemed to talk this morning, though.

Mr. Carlson: Well, I provided the information for him to make his comments.

Q. But he gave us a kind of rosy glow to the passage.

Mr. Carlson: It is true that we do not oppose the objectives, but there are some legitimate questions on the operation of it and how it would impact. Even those of us who can agree on the same objectives would be concerned about these issues, and some of the agencies that have been contacted have a different point of view on how it should be operated, so we have to resolve these. The point I am trying to get across is, you have to put pressure up on the Hill, and we will respond to that pressure. In the meantime, we intend to go through our clearance process to have that bill for the Administration to send to Congress.

Q. Let me say this—and I am not either in favor or against—but I do think this is where tactics can be improved. If you do plan to endorse it, I do think the time frame should be relatively short.

Mr. Carlson: Let me reinforce this viewpoint on the fact that the consumer's interest is often poorly represented when it comes to the kind of bargaining that is needed for this kind of bill. Right now that is a great weakness of getting through very fundamental consumer legislation much more important than 1052. However, I don't want to get involved in a discussion on that.

But this whole legislation is complicated. It is difficult for people to understand what the provisions really mean and to have an independent point of view versus the institution point of view. In our society, we think that commercial banks and others have a point of view that may be somewhat different than our own point of view as consumers.

But as was indicated, we have gone through the different groups and seen what their interests are and made trade-offs among them and trade-offs with the consumers, but the only trouble is, if the consumer isn't right up there, it might come out with a kind of compromise that is not close to their interests.

Dr. Beasley: I am really kind of embarrassed about this. For one, I can definitely say we definitely support the concept of truth in savings and there is no question about that. The argument is only on the implementation of it and I think we will come out very strongly in favor of it shortly. The reason I am embarrased, though, I first heard about this when I spoke to this group nine months ago, or maybe less. And when I checked into it, I was told that, first of all, we supported the concept but, if we supported it or said that and if we included it in our Presidential recommendations, those who opposed it would simply say "Well, look, that is in the President's recommendations, so let's don't take it up this spring—that was this last spring—but let's wait until the President's package comes out, and we will consider it, and that will be in a year or so." So that would have given them a vehicle to postpone it and we were advised simply not to further consider it. I thought the hearings would have been held early last spring. I just didn't keep up with it that close. But I do now see the strategy.

Q. I am just taking this opportunity now to talk about tactics. Now, tactics are probably more important than you realize. I am not talking about the intrinsic points of the bill, but I think it is a good time to examine the whole process, which I think has ground to a halt or ground to a point where it hasn't been moving at all. That is why I perked up my ears when Secretary Lynn mentioned the imminent endorsement.

Dr. Beasley: That may be the most important point that came out of the meeting this morning. That may be one brick we have started placing.

But what do we do? Now let me start asking the questions.—

Q. First, let me make a comment in terms of technicalities.

Dr. Beasley: All right.

Q. I think it is a pretty complete bill as far as the technocrats are concerned. Where the problem lies is on the understanding of the traditional ways to do business and not appreciate the fact that all facts have to be disclosed to both parties. So the consumer can validate his account when he gets the figures back, and he can be the best policeman of the market and thereby reduce the need for regulatory authorities. So I think we need a good technical session right now about that point.

Dr. Beasley: Let me make one further point. When we went and talked to the Congressmen the latter part of July, just prior to our announcement, one of the most interesting comments that each of them made—and we talked to about 50 of the leadership up there—is that they immediately recognized the consumer implications of this. Before we got there, the bankers had been in, the S&Ls had talked about this and neither had ever brought up the consumer undercurrent, but as soon as we went through the various facets of it, one Congressman in particular said, "But why haven't the consumers been in here?" or, "Oh, I could see this would be beneficial in this way," or, "Have you checked with this consumer group on this point," so that I think at least, they recognize that the consumer should be interested in this, but yet I get the feeling that, you know, it is a complicated subject, and it is hard to get excited about, and the only thing possibly exotic about it is Regulation Q where people actually feel that they are being cheated, in a sense. You never feel cheated if you never had a consumer loan from an S&L. But where de wo go from here? You need to have some guidelines.

Q. Thinking of my own state organization, we need periodic reports and reliable information on what's going on from either public or private sources, and I'm not saying which, just so long as we get it.

Consumer Involvement

Q. Another thing, let's stop kidding ourselves about getting consumers involved and revved up about any type of legislation that is not geared towards responding to their concerns and their needs. Only until such time as the Administration shows a great deal of sensitivity in the area of real consumer interest across the board—and I'm not saying a single interest, but only then will they become enthused and interested. We all understand the political process that goes on and the trade-offs, and everything else. All right. Keeping all of that in mind, the fact is that when you refuse to deal with paying interest on demand accounts, while we are talking about overhauling the system, who are we kidding? Now, when we know that banks are using balances and co-mingling funds, well, you know, it is a ripoff right off the top. The consumers know that, and it seems to me here is an angle, here is something that could be used to sweeten the pot, but there seems to be a hesitancy in wanting to deal with this. And if there is any one area that a consumer could get wrapped up in and talk about, this is it. Some palace guards want to turn this around a different way. Those of us who are in the consumer consciousness awareness game, we understand there are many palace guards who write up reports for the boss. In other words, he is so busy doing so many other different kinds of things that he is not really sensitive to the real needs and concerns of people. So oftentimes, many of us feel and really suspect that what the individual decisionmaker has to go with are the biases and the prejudices of the people who put the report together and he has been sold—I am talking about the decisionmaker—and he has been sold that this is the sentiment, this is the thinking, and this is the way we ought to go from a political standpoint and everything else.

What I am charging is that some of these palace guards are not giving the right kind of input so that, therefore, we can get the right kind of output, and if the palace guards were to give the right kind of nitty gritty approach to the decisionmakers, there is no question in my mind that we could get consumer type advocates and groups behind a particular issue.

Dr. Beasley: What do you suggest specifically?

Q. All right. Demand accounts, for example. Why the five years? Why not lift Regulation Q by administrative action? It was administratively imposed, after all.

Dr. Beasley: That is an interesting point. We did something on July 5th that we thought was a reasonable and rational thing to do and gave the consumer a break; we gave the consumer the certificates of deposit, the four-year certificates, and you would not believe the hell we caught from the savings and loans.

Q. That is precisely the point. Nobody knew what was going on. Even Dr. Burns said, for the first time, he realized how fallacious the advertising is. Nobody really knew what the signals were.

Q. And in Cleveland we had to put 28 more bucks in afterwards that they didn't even bother to state in the advertising—

Dr. Beasley: That was the Treasury Department.

Q. But I'm saying, that is the sort of problem that is coming along and then you wonder why we can't get warmed up to supporting legislation.

Truth in Savings

Q. I am Richard Morse, I would like to take this statement I gave you and wipe out what I said about alleged benefits and say "the full benefits may be realized by the consumer," and our intention is to fully inform the consumers so they can make their judgments with full knowledge.

I do have a little loyalty, you know, to my banker and savings and loan, but that loyalty comes second depending upon where the rates are and what the penalties are and so forth. Then let competition rule the market.

The other point, matters of social injustice need to be reckoned with, but, keeping the two separate in terms of full disclosure is so perfectly compatible with our concepts that you build into this freeing up the market that we remove these artificial restrictions.

We talked earlier about why there is no interest in truth in savings. There is a good reason for that, because most of us middle class people say we really know what is happening, but we really know we don't know what is happening and therefore we feel guilty and we are not going out on a crusade to expose ourselves and our ignorance. I dare say we would be more than glad if the White House would say we think the public isn't getting the full facts.

I hope the White House would take that position, and I am proud of my Congressman for taking that position.

Small Savers

Q. I think on a similar level, that the Administration does not have a good record of credibility historically from long back. In just one example, why should it be that the middle class fellow should be the one who bears the burden of financing the housing market through the savings and loans? Why can't we go out and buy Treasury notes? The rich people can. Why are we cut off from that? True, it would take money away from the savings and loans, but it is simply unfair to make us average guys bear that burden, and I think there are a number of things you can look to in the past that are similar to that.

Credit Unions

Q. You asked about how to make this package more compatible. You heard some criticisms early in the day from various people on what you have done and have not done towards the credit unions. In this area, it is particularly vague as to what you say about commercial banking and about savings and loans, but when you do get to specifics you have provided them help in emergencies, and when we have difficulties. You didn't help them in their opportunities, and opportunities are what they're looking for because I don't know a more dynamic area of this whole financial picture. And if you want to know who are the darlings of Wall Street and Capitol Hill, they are, because they recognize their meaning. I mean like Senator Proxmire and Mr. Patman, eat, sleep, and get up in the morning and salute the credit union movement.

So out of all proportion to their strength, you have a very strong political element going for you there. I do think you ought to provide some postive support and in both the Hunt Report and in the Administration recommendations I would suggest you look more to the pluses as well as to the minuses.

Sure, they need help when they have to liquidate and that fund standing behind them is good, but let's look over what you can do for them when they need opportunities. I think that is the weakness of the whole package.

Dr. Beasley: We recognize that may be a perceived weakness. The only problem is making more opportunities available to them consistent with tax exemption, and that is a mighty tough line to draw.

Q. That idea of riveters lending to other riveters, I don't buy that characterization.

Dr. Beasley: But you have to go back to the concept of why they were put together. They were cooperative banks.

Q. You mean they were making money cooperatively? I am glad to hear you say that.

Dr. Beasley: True, but so is a mutual savings and loan which collects money from the neighborhood and loans back to the homebuyers within that community.

Q. Well, there is a different set of motivations in the credit unions too. They are not out to make money. They are trying to serve.

Dr. Beasley: I keep my money in a credit union, but it is hard to distinguish a neighborhood credit union from a neighborhood mutual savings and loan.

They are the same thing; one is taxed and one is not, depending upon the name.

Q. I get the feeling that consumer advocates have a point of view, and that consumer advocates are the fringe element, that they go at something with a single-minded purpose without really understanding the system and how it functions and how it operates. I want you to know that you have responsible consumer advocates who understand the system and how it works. We do understand the trade-offs. We understand the political games, and that political games are being played. I feel like if you could get that concept through, the same as you listen to the business interests, if you could get the concept that the consumer advocates have an insight to things, the same as other vested interests have, it would be a better situation. So if you listen to us and what we are saying rather than to just tolerate us, then it appears to me that some of these things that you want to get done can be gotten done and you would have the support of the consumers across the country.

Dr. Beasley: Very good. I hope we are responsive to that and that we are doing more than tolerating you and we are actually listening.

Q. Why can't you be more responsive by actually advocating consumer participation in these financial institutions on the local and the state level in the commercial banks and require representation of actual constituent consumers on their boards? If this is such a consumer bill, get the consumers actively involved at all levels at both Federal, State, local, just all of the way. Why can't you require that?

Q. Along that line, the Comptroller of the State of Florida, well, we just got some legislation passed in our last session which virtually mandates that each credit institution have a family financial counsellor on the premises to work with families. This of course is not easy to implement. We don't have enough qualified people to actually do this in an objective way, but it is the direction in which our Comptroller is heading.

Consumer Representation

Q. I may say here, why not have someone on the Reserve Board, the FDIC, someone who would discuss their policies with the people who walk the streets?

I might say, it is a real revolution to have Dr. Burns reading the ads, for instance, and seeing how silly they are. I testified before the Senate and took an article from the Washington Post advertising three financial institutions. One paid 6 percent, one paid 6.18, one paid 6.27, and those poor Senators fell all over each other when they heard that. They are evidently upset that the same rate could be presented to the public in three different ways, and that really didn't make any sense to them, but they could care less.

We need people in regulatory authority who think that the system ought to make sense to the public. That is all we are asking. The system ought to make sense to the public, and if it can't be made sensible, it shouldn't exist.

We have a little slogan in packaging that if it can't be told, it shouldn't be sold.

Q. That is all we are asking for, you know, a Nicholas Johnson on the Fed.

Q. And when you talk about consumer representation on commercial bank boards, you are talking about the selection of a very elite social strata within that community, so I was a little hesitant about proposing that, but an alternative could be an advisory committee of consumers covering all of the social strata and all of the income levels of the community, making sure there is in there consumer input on all levels. If you want a consumer bill, then involve the consumer.

Mr. Carlson: If you provide adequate alternatives, then he could present his wishes by which institution he chooses, do you agree?

Q. No, not now, though.

Dr. Beasley: I think the most important thing is what has happened in Florida recently where competition among banks has led to them publicizing their financial counsellor in the press and they put a picture in the paper with a "Come in and see Betty and she will help you out" type thing. I agree entirely with the concept of having consumer representation and an advisory counsellor in the bank or on the board. I just don't know the best technique to get it, or whether you have to cram it down their throats via legislation, or do you do it through competition and let it spread, as it has in Florida.

Q. I don't think competition is the best allocator. My bias would be, if there is a need to get people on these boards, require it.

Mr. Carlson: You know, if you look at this—and this is aside from this topic—if you look at regulation in this country in terms of the regulated capturing the regulators, you wouldn't have that much faith in additional regulation as you seem to express.

Or you can go ahead and structure it into institutions so that consumers have a chance to make choices and thereby dictate the policy of institutions.

Q. They have done it in hospital administrations.

Mr. Carlson: And I think that is a far more successful route than relying so heavily on regulations.

Q. But we are looking at a history of real dominance in the field.

Mr. Carlson: Wait, I think you can look into every other area and find out the same thing has happened where the regulated have been captured by those who regulate.

Consumer Education

Q. I don't know how to do this, really, but I think publicity is something you really haven't got enough of. Among the American people, who ever heard of the Hunt Report? Very few consumers, I bet. It was only those who were interested in it. I don't know whether you involved Nader's group or not. I suppose you have, but why can't we have some of this on the 60 Minute news or the Walter Cronkite Show?

Dr. Beasley: It was.

Q. Was it? Well, I'm sure the New York Times reported on it, but the average rank and file—

Dr. Beasley: But it was only on for two days, and then dropped.

Q. Why can't we have more coverage?

Mr. Carlson: The lobbies from the MSBs and the S&Ls and commercial banks are here every day of the year, and the consumers are not.

Q. The real problem is you don't have consumer organizations of that strength.

Q. You said this might not be a glamorous issue, but to my mind it is one of the most fundamental issues—

Dr. Beasley: I think I said sexy, but I will use glamorous.

Q. I think this is a real down-to-earth matter, and aside from people in the academic circles who are competent in the field being interested, most of us outside of it are perfectly willing to admit we are not competent and we know we are being taken, and we don't know exactly where the trouble is. I think this is something that really hits almost every person.

Don't get the feeling that you are inhibited because this issue is complicated because although it is complicated, you have presented it in very simple terms, and people are not that stupid and can understand it if you present the issue. I am sure they would understand you if you get the message across and they could react to it. My criticism of this whole operation is that it is not being aired enough.

Q. I think, backing up what she just said, is the fact that, as soon as they offered those Treasuries the other day—and it got just one small notice in the Cleveland paper at 8:00 o'clock in the morning—but between 8:00 o'clock in the morning, and whatever it was, 9:30, when the banks finally opened, they lined not only the street in front of the bank, but around the corner and this was done in less than an hour. So if the information gets out, a fantastic number of people will respond. This was less than an hour and one half and it required a $5,000 or $10,000 purchase, so that you didn't get down to the lowest group of people.

Now, if you could get some of the other things that are mentioned in here, that are not glamorous—if you could get some of the rest of these things pointed out, people do pay attention if they get the information. And even though the Hunt Report is out, it is sure not a sexy piece of material. The material that is coming out as of the present time would turn a college department of economics professor off, to say nothing of a high school graduate, and as you go down the schooling level, they are simply not interested in reading about disintermediates. I don't know what that means.

Mr. Carlson: You mean flow of funds out?

Q. Well, that sort of word doesn't appear in newspapers.

Mr. Carlson: It doesn't fit the line.

Dr. Richardson. I think you are making a good point, and I think it is the responsibility of the Office of Consumer Affairs—because I think you are talking about yourself as well as us, to translate the government's activities into things that the taxpayers can understand. There probably was a mistake made when we used a title like The Report of the President's Commission on Financial Structure and Regulation, which even trade associations finally had to start calling the Hunt Commission and nobody ever called it the Consumer Report on Banking or some other such title, which would have some meaning, so I suppose this title is in the same category as you were mentioning.

Q. And don't misunderstand me. I'm not downgrading it. That is an excellent report.

Dr. Richardson: No. I'm just talking about titles here. If you noticed the press write-ups that we sent you and if you looked at other material, I think the average person would look at the headline and quit at that point.

It's just not been interpreted by the press and by us and by the consumer organizations into everyday language, and credibility with other consumers.

Q. That is what I am driving at. As soon as material comes along that they can understand and are interested in, there is a fantastic sudden emergence of interest. It is just that so far this thing has so far at any point not crystalized to the point where the public is aware it's in existence.

Q. Talking about FDIC; you have this insuring of the monies deposited in the banks; now this is an insurance where if the banks go broke, you are going to receive X number of dollars back. O.K. We can understand that. Now, it seems to me that any consumer can understand if the bank goes broke and if you've got $30,000 in that particular institution, all you are going to get back is $10,000. That is all it is insured up to.

Dr. Beasley: $20,000.

Q. Well, whatever. Even if you get back the $20,000 out of the $30,000, you know, that is all you are going to get back. Now, what's going to happen to the other $10,000? Now, you could have a third grade background or exposure and still understand the difference in getting back the $20,000 out of the $30,000.

So it seems to me if you said to these individuals, "Look, let's not deal with who is right, but let's deal with what is right," you would have a better response. Why can't we come up with a system where you get full benefits for the money you invested? People can understand that. That is simple.

Let's not try to make a mountain out of a mole hill so that people can understand if you make it simple.

Consumer Support

Q. Have you made any attempt to marshall organized labor to get their support?

Mr. Carlson: We had the AFL-CIO here earlier.

Dr. Beasley: We have had talks with the AFL-CIO. They support part of it, but they have a different technique of allocating funds in social priority investments.

Q. What portion of it do they oppose, if any? You said they support part of it? I mean, here is probably the most well organized group that could be representative of the consumer that I know of and that has real power, and I would like to know what portion of it they oppose, or do they oppose any?

Dr. Beasley: They oppose the greater liberalization of S&L powers, i.e., consumer loans and so forth, because they fear that this will detract from the housing market. And their solution to this is to require financial institutions to invest say 30 percent of all of their assets into housing at the 6 percent rate.

On the other hand, if you require an institution to invest 30 percent of its assets at 6 percent, it doesn't have the money to pay depositors, and the depositors leave, and so you end up with nothing.

Q. I am a little disappointed to hear this.

Dr. Beasley: I guess we have run over this time limit, and I know you are very kind to have stayed. Let me close by just giving you a peek at the calendar of how this may move through Washington.

The Senate Banking Committee expects to hold exploratory hearings the week of October 15th. It will not be debated back and forth. It will just be an opportunity for the Administration and other witnesses to explain this package and get it before the Congress. The real active debate will come starting next January and February when both the Banking committees and the Tax committees will take up this package, so we will have some time. But the critical need, as I see it from your feedback, is to rewrite our Treasury document, which is complicated to say the least, into everyday language and get it in a more compact form with less detail, and distribute it out among the consumer groups and get people talking about it.

The second need is to get on board with the truth in savings amendments and to get those moving forward.

So I think that all of us have a lot of homework to do if we are going to provide you with more and usable information and maybe we can get some of you to come up here and consult with us and help write it.

Q. Have you got an office in the Treasury Department which is called the Consumer Office or a person assigned to it?

A. Mr. Simon's Public Affairs Office is a good point of contact—Edward Koenig, Room 2204, at the Treasury Department.

Q. I think if you let the public know that you have these concerns and you have people specifically there to represent the public, that it would be a healthy move.

Dr. Beasley: That is a very good idea.

Well, I guess that wraps up our comments today. As I said, it has been extremely kind and generous of you to come here, and we appreciate it.

(Whereupon, at 2:30 p.m., the above-entitled matter was concluded.)

Questions submitted in writing by Joan Vogel

Q. A lot of faith is put in the dual banking system of state and federal chartered institutions. How do these new recommendations assure the dual system will work competitively to court consumer favor and improvements instead of those of the banks? In virtually every other field of regulation such as communications and utilities, the regulators are captives of the regulated industries. How can it possibly be different in banking?

A. Banks are ultimately motivated by consumer desires and the need to attract public business. But the banking business is, by its very nature, restrictive; rather than a bank having the freedom to do anything which is not prohibited, banks are allowed to do only what is empowered. Thus, banking history has been one of the limited consumer services. However, with all 50 States and the Federal agencies vying for leadership in this area, coupled with the increased competition to innovate, the entire system is more responsive to the public.

For example, NOW accounts are a product of State law in Massachusetts; NOW accounts and free checking services are provided in New Hampshire; and the State Banking Commissioner of Florida encourages consumer counselors. There can be no guarantee that any regulatory agency will not be captive, but the best system is one that is as open as possible.

Q. If the Administration thinks that Regulation Q is hurting the small savers and has no current effect on the large ones, then it looks like individual consumer-savers are being forced to subsidize the banks, etc. Why don't the Administration's agencies simply unilaterally remove the rates on small savers post haste or at least raise the limits far above the current rates?

A. The agencies feel bound by the spirit of the legislative history of Regulation Q to keep Regulation Q rates at or below the market rate. The recent experience with consumer-type Certificates of Deposit, where no limits were set, was quickly eliminated by a rapid response in Congress due to pressure from financial institutions. However, even if it were legally possible to remove immediately the ceilings on interest rates, it would still be wise to allow the thrift institutions, which are not strong enough to withstand immediate rate increases, to have enough time to adjust their loan maturities and earning assets to be able to compete on an equal basis.

Q. The sliding scale of mortgage interest tax credits conflicts with the general purpose of the legislation—to create relatively homogenous competitive types of financial institutions. If the thrifts are given plenty of tax incentive, then they will stay almost exclusively in mortgages and nothing has changed. The commercial banks on the other hand will never reach 50% or 70% levels of investment in mortgages so they won't change their current practice of limited housing financing. So what is accomplished by these changes in taxes?

A. The general purpose of the legislation is to provide a more homogenous set of laws, under which each institution may tailor its own services to best fit its own community's needs. The purpose of the tax proposals is simply to provide the same tax treatment to all financial institutions which finance residential housing. It can be convincingly argued that the most theoretically pure tax credit would be one that is constant at all levels of mortgage holdings. However, a single credit high enough to compensate thrifts would result in a tremendous windfall to other institutions. It is not practical to restrict the credit only to newly created mortgages.

Q. What is the significance of changing charters for thrift institutions from mutual to stock charter? The mutuals aren't mutual in any real sense or else their members would be holding annual meetings and running them much like credit unions. Mutual thrifts like mutual insurance companies, are really run entirely by self-perpetuating managements. Wouldn't it be better to change charters to a true mutual or cooperative form rather than going the opposite direction to stock ownership?

A. The proposed legislation merely provides for a Federal stock charter so that State institutions may be formed in all States rather than in the 22 States which now allow them, and to provide those State institutions in the 22 States with an alternative charter agency. Rather than making the social decision as to what *form* of organization is best for each community, we are simply providing the alternative to the community so they may decide themselves.

Written Statement and Questions submitted by National Consumers League

October 15, 1973

Dear Mr. Simon:

I would like to express my appreciation for the extensive briefing you provided for consumer representatives on September 19th, regarding the Administration's recommendations for change in the U.S. financial system. We welcome the opportunity to exchange views with you, and sincerely hope we will be accorded the chance for further meetings of this nature.

In order to ensure that my evaluation of your recommendations is clear, I am writing this letter, which I respectfully request you admit into the record of the day's meeting.

The Administration's recommendations come prefaced by the statement that they are intended to alleviate the shortage of mortgage money in times of inflation. Thus the goal is one with which we are in entire agreement. But we find that the methods by which you recommend implementing change will alleviate the housing money shortage but very little, and will benefit the banking business at the great expense of the consuming public. We are thus in opposition to the Administration's recommendations.

(1) Your proposals accord new protections to the large commercial banks, and insulate them against real competition. Why, for example, do you keep thrift institutions out of the commercial loan field?

(2) You propose eliminating the ceiling on interest rates paid on savings accounts, but mention no word about resultant increases in credit costs and mortgage rates. Whatever money consumers make on their savings accounts would be lost perhaps many times over by the higher rate they would be forced to pay for credit and mortgages, and for the round of inflation that these increases will set into motion.

(3) You propose a mortgage tax credit for banks —in reality, just opening up another tax loophole. Under the garb of helping the poor obtain housing, the proposal hands the bank another present from the U.S. Treasury.

In order to improve the availability of credit and especially of mortgage money, the National Consumers League supports: a National Development Bank, and the mandatory allocation of mortgage money for housing. These are means which speak to the needs of the consumer.

Sincerely,

Alice Shabecoff
Executive Director

A. 1. The proposed legislation provides federal thrift institutions with authority which 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.

2. Not necessarily. A number of interrelated factors have to be taken into account:

a) 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.

b) The market for mortgage loans is a long-term market, while the market for deposits is short and medium term.

c) 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.

3. The proposed mortgage tax credit is an honest subsidy designed to benefit this country's needs

for housing. In 1969, Congress studied the present deduction for interest payments on mortgages and determined that it was not a loophole.

The benefit to various groups from this tax credit, based on estimated 1973 residential mortgage interest income, will be approximately:

	Million $
Savings and Loan Associations	$483
Mutual Savings Banks	$120
Life Insurance Companies	$47
Commercial Banks	$13
Finance (mortgage) Companies	$13
Individuals	$9
	$685

This represents a net loss to the Treasury of approximately $154 million a year, since the Treasury loses roughly $531 million annually from S&L's and MSB's ($471 and $60 million respectively) due to the liberal bad debt provisions applicable to thrift institutions.

Index

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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Jurisdiction of Federal Agencies Regulating Deposit Institutions

Comptroller of the Currency: supervises 4,614 national banks and 3 non-national banks located in the District of Columbia.

Federal Reserve Board: supervises 1,091 state-chartered banks which elected to become members of the Federal Reserve System.

Federal Deposit Insurance Corporation: supervises 8,025 state-chartered commercial banks that are not members of the Federal Reserve System but are insured by the FDIC and 326 mutual savings banks which are insured by the FDIC.

Federal Home Loan Bank Board: supervises 2,044 federally-chartered savings and loan associations; and to a lesser extent, 2,147 state-chartered, but federally insured, savings and loan associations. (There are 219 state-chartered non-federally insured associations and mutual savings banks that are members of the FHLB system but are not supervised by the FHLBB.)

Federal Deposit Insurance Corporation: insures 4,614 national banks; 1,092 state member banks of the F.R. System, 8,027 non-member banks; and 326 mutual savings banks.

Federal Savings and Loan Insurance Corporation: insures 2,147 state-chartered and 2,044 nationally-chartered savings and loan associations.

National Credit Union Administration: supervises 12,708 federally-chartered credit unions; administers an insurance fund for 12,708 federally-chartered credit unions and 1,315 state-chartered credit unions.

Note: Data as of 12/31/72

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TESTIMONY BY THE HONORABLE WILLIAM E. SIMON
DEPUTY SECRETARY OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
OF THE
SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
TUESDAY, NOVEMBER 6, 1973

Mr. Chairman and Members of the Committee:

It is a pleasure for me to appear before you today to discuss our recommendations for change in our financial system.

We all should appreciate the fact that we are now in a unique position to revise in a constructive manner the banking laws of our Nation. Events during the last decade have revealed significant defects in our financial markets in general and our financial institutions in particular and it is apparent to many in the banking industry, as well as the government, that there is a need for basic structural reform. The credit crunch of 1966, the monetary and gold crises of 1968, the severe squeeze of 1969-1970, as well as the interest rate escalation of 1973, illustrate that our system does not adjust well to short-term changes in economic and financial conditions.

There have been thoughtful and comprehensive studies which have outlined the appropriate prescription for change. As Reed O. Hunt just testified, the President's Commission on

S-319

Financial Structure and Regulation labored eighteen months, commencing in June 1970, to develop its comprehensive approach to financial reform. Subsequently, this Administration has undertaken a twenty month review of not only this report but also many others in order to develop as balanced and structurally sound a proposal as possible.

With this background of study, we believe that now is the time to act. We must develop a permanent system that will allow our financial institutions to be less dependent on the government. Increasing government involvement is evidenced by the consistently expanding scope and size of the market borrowing activities of credit agencies created by the government like the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Government National Mortgage Association (mortgage backed securities), the Federal Home Loan Banks, and the agencies of the Farm Credit Administration. Many activities of these organizations are manifestations of government reaction to financial crises. The debt generated by these agencies has grown from $13 billion outstanding at the end of fiscal year 1965 to $65 billion at the end of September 1973, and shows signs of still more growth. Just in the first nine months of this year, the net increase in this debt was $15 billion.

Such an accelerated expansion in the volume of Federal agency obligations in the market necessarily entails interest rates on these securities at levels high enough to attract funds from investors who would otherwise deposit their funds

20

in banks, savings and loan associations, and other thrift institutions. In this way, borrowing by government and government-sponsored agencies contributes to the now familiar disintermediation process which has the effect of disrupting the normal flow of mortgage and other funds through lending institutions. Thus these borrowings by Federally-sponsored agencies, while intended to assist the mortgage market, compete with housing, small business, municipal, and other borrowing -- so that their net effect on the allocation of credit in the economy is not clear. It is unmistakably clear, however, that credit and financial institutions are becoming increasingly dependent upon direct government intervention and support.

This unwarranted governmental role once again illustrates that we have a banking structure which has been largely constructed by historical accident and one which has been reworked and patched up typically only in times of financial crisis.

Our financial system, like any system which has not been updated, needs to be brought into the twentieth century. Presently, it is a system which responds to changes in monetary policy with overt spasms, to the detriment of both savers and borrowers. The reactions in our financial system result in an overabundance of money flowing into institutions at certain times in our business cycle followed by a total cessation of deposits and even large withdrawals at other times. They have been exacerbated by, and in large part caused by, the rigidities built into our banking laws over the past six decades. Financial institution laws simply have not kept up with changing times, and the increased intensity and frequency of these spasms are testimony to that fact. We must strive to create laws which will allow our financial institutions to change with changing times while providing necessary services to their communities; to collect the savings of these communities; and to make loans to customers in the most efficient, prudent and responsive manner possible.

We must modernize our banking and savings laws. We must insulate our financial institutions, to the extent possible, from periods of monetary restraint by giving them the ability to compete in the market place. In this way, these institutions will be able to function normally when interest rates rise.

In order to understand this, it is important to recognize the special role interest rates play in our economy. Unfortunately a discussion of the role and the behavior of interest rates in our economy often quickly deteriorates to a level of emotion and theology. It is a fact of life that the level of interest rates reflects the interplay between the supply and demand for credit, plus the current and expectational rate of inflation. 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.

21

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.

And this is what interest rates have done -- they have responded to the fiscal and monetary policies that have been employed. In order to resolve completely the problems of our financial institutions, we must make a dual commitment not only to modernize our financial system but also to adopt the proper mix of monetary and fiscal policies.

Goals

Before thoughtful discussions can begin on the details of any financial reform, the goals of the envisioned new system must be presented and scrutinized as precisely as possible. All too often we fall into the trap of arguing specifics of a particular recommendation without first having a clear view of where we are headed. I would like to outline six goals of the President's recommendations.

(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

22

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 <u>to create a financial system that not only serves the borrower but also the consumer-saver</u>. 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, personal loans, 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 <u>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</u>. Thrift institutions must bring their assets and liabilities into better balance by shortening the maturity of some of their loans and by stretching out the maturities of their deposits. 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 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 to preserve and strengthen our dual banking system. 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.

23

The potential issues in a complete reformation or our financial system are immense. The President's recommendations do not cover the entire spectrum of problems but concentrate on the most fundamental area which is best described as the financial institution's relationship to its customers. The recommendations deal chiefly with the services which financial institutions may offer their customers, the rates of interest it may pay to its customers on deposits, and the different tax treatment that various institutions receive for making loans to the public. Our recommendations do not deal with the relationships between our financial institutions and their supervisory agencies. There is certainly a need to study these issues, and we would be glad to work with the Congress as you consider this important area.

For convenience of discussion, the President's recommendations may be broken down into seven issues. Six relate to this Committee, while the seventh - taxation - will be within the jurisdiction of the Finance Committee. With respect to each of these issues, I will discuss the background that gave rise to our recommendations and then the recommendations themselves.

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 proven incorrect -- was that excessive 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.[1/]

1/ For a study attacking the theory that massive bank failures were caused by interest rate competition for deposits, see Albert H. Cox, Jr., Regulation of Interest Rates on Bank Deposits, Michigan Business Studies, Vol. XVll, No. 4, Bureau of Business Research, Graduate School of Business Administration, The University of Michigan, Ann Arbor, Michigan, 1966, pp. 74-76.

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However, development of "negotiable order of withdrawal" (N.O.W.) accounts and the development of "electronic funds transfer system" (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 1930s', 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 FRB had authority to set interest rate ceilings for national banks and state banks which are members of the Federal Reserve System. The three supervisory authorities then agreed to formalize the historical 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, nor did they 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. Those who, due to their unsophistication or small savings, had only limited outlets for their savings, were forced to accept less than market rates. However, large savers who withdrew their funds had the option of acquiring debt issues of the Federal Home Loan Banks at market rates. Funds raised in that manner were then reloaned

25

to thrift institutions at rates generally above deposit rates. This is one of the many examples of what may be called the "chase your tail syndrome" which exerts upward pressure on interest rates but does not increase the funds available to thrift institutions.

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.

Formal interest differentials between types of institutions may have prevented, to some extent, a shift of deposits from thrift institutions to commercials banks. If they did, the interest differentials 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 three "credit crunches" and by constant advertisements about interest rates, even the less sophisticated savers have shifted their funds to the higher yielding instruments when market rates greatly exceed passbook ceilings. Such shifts began in the summer of 1973.

Thus, it is obvious the interest ceilings or differentials cannot 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.

Truth-in-Savings is a related issue which must also be addressed. The consumer-saver frequently does not have adequate information at his disposal before opening an account for his savings. Information on the calculation of interest, payment dates, and other terms and conditions of interest-bearing accounts might be fragmentary, misleading,

26

or even non-existent. With greater understanding of these matters will come increased confidence in financial institutions, and a greater tendency on the part of the public to save. Most importantly, full information will permit the consumer to shop for the best rate or combination of conditions which fit his situation, and will enable him to verify more easily the amount of earnings credited to his account.

RECOMMENDATION

With this background relating to the payment of interest on deposit accounts, let us turn to our recommendations:

Payment of interest on demand deposits will remain prohibited for all institutions.

Regulation Q, setting interest rate ceilings, 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 the proposed legislation is enacted. At the same time, preparations can be made for completely eliminating 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 savings accounts.

Administrative decisions on the actual levels of ceiling rates will be made by the Federal Reserve Board, the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board for the institutions under their jurisdictions after consultation among all the agencies and the Secretary of the Treasury.

With respect to Truth-in-Savings, the President recommends that full disclosure of the following terms be given to each saver at the time he places funds in an interest bearing deposit account:

1. Annual percentage rate;
2. Minimum length of time a deposit must remain on deposit so that earnings are payable at that percentage rate;
3. Number of times each year earnings are compounded;
4. Dates on which earnings are payable;
5. Charges initially or periodically made against any deposits;
6. Terms or conditions which increase or reduce the rate of earnings payable; and
7. Any restrictions, and amount or method of determining penalties or charges imposed on the use of funds in any deposit.

In every advertisement of interest-bearing accounts, the annual percentage yield may be provided, but, if it is, the annual percentage rate must be stated in print at least as large as that of the annual percentage yield.

Issue 2

EXPANDED DEPOSIT LIABILITY POWERS AND RESERVES

Background

Eliminating preferential interest rates for thrift institutions will require adjustments in their deposit liabilities and assets so they can compete with commercial banks and other competitors for the savings dollar.

In the area of deposit powers, federally-insured thrift institutions are now prohibited by law from offering third-party payment services (i.e., bona fide checking accounts) but they may issue non-negotiable orders of withdrawal (N.O.W. accounts) in Massachusetts and New Hampshire.

For their part, commercial banks are prohibited from offering savings accounts to their corporate customers. Such accounts were prohibited by the Federal Reserve in 1936 on the theory that they represent 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. State-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 between checking and savings accounts. These innovative changes which are sought by the customer should be supported.

In addition, some people say that if commercial banks and thrift institutions are permitted to offer the same range of services, they should operate subject to the same ground rules. And one of the most important rules deals with 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 uniform reserve requirements are needed for the efficient conduct of monetary policy, or any other

28

reason, is a question that is not addressed by the President's recommendations.

RECOMMENDATIONS - With this background in mind, our recommendations with respect to deposit liability powers and reserves are as follows:

For federal thrift institutions, checking account, third-party payment powers, credit cards, and N.O.W. accounts will be available to all customers, individual and corporate.

For national banks, savings 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 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 (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. This in effect breaks the link which now exists between Federal insurance and mandatory membership in the FHLB system. A thrift institution should be allowed to obtain Federal insurance without having to join the federal system as is the case for commercial banks.

N.O.W. deposits will be subject to the same range of reserves as demand deposits. However, the Federal Reserve Board, after consultation with the Federal Home Loan Bank Board, 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 accounts will range from 1 to 5 percent and those for time accounts will range from 1 to 10 percent.

Issue 3

EXPANDED LENDING AND INVESTMENT POWERS

Background

Removal of interest ceilings and 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 acquiring 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.

29

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 any 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 housing credit. 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.[2/]

2/ A recent study of state-chartered S&Ls in Texas which currently have consumer loan powers revealed that mortgage lending in Texas was enhanced by the ability of state S&Ls to make consumer loans. The state-chartered institutions experienced a much faster growth than did federal S&Ls and, hence had more money available for mortgage loans. As expected, the amount devoted to consumer loans was quite small.

The possibility that commercial banks may fill the gap will be enhanced if current restrictions[3/] 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 covered later.

3/ In addition to numerous restrictions in the real estate lending law (12 USC 371), national banks are limited in their real estate lending to an amount equal to 70% of their time and savings deposits or 100% of their capital and surplus, whichever is greater.

30

RECOMMENDATIONS - With this background, our recommendations relating to lending and investment powers are:

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 welfare and development investments on loans for, as well as direct investment in, residential and related properties, including a participation in rental income or a share of capital gains on the sale of property, but with this so-called 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 guidelines 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 community welfare loans; and

(7) Continue the acquisition of a full range of U.S. Government, state and municipal securities.

National banks will be granted:

(1) Powers to make real estate loans without present restrictions mentioned in footnote 3 above.

(2) A leeway authority, not to exceed 3 percent of total assets, for community welfare and development investments on the same conditions as thrift institutions.

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 over-zealously protecting existing firms by restricting entry into the field via new charters.

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.

RECOMMENDATIONS - Therefore, our recommendations are as follows:

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 "Federal Savings and Loan Associations" or "Federal 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 grandfather their life insurance, equity investments and corporate bond investments. These 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 previously had been insured by the FDIC.

The Federal Home Loan Bank Board will be given authority with regard to the regulation of securities and reporting requirements under the Securities Exchange Act of 1934 to carry out fully the Board's responsibilities in the regulation of stock thrift institutions.

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 credit unions since 1965, but a 134.6 percent increase in their assets over the same period.

32

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 operation of the vast majority of credit unions. Although there are credit unions that would prefer to offer the services of "mutual savings 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" would be one method to solve this problem.

RECOMMENDATIONS - With this as background, our recommendations with respect to credit unions are:

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 funds will be obtained through subscriptions by credit unions wishing to join. The Fund is to be administered by the National Credit Union Administration (NCUA).

Services which credit unions provide will also be expanded although such additional powers must be consistent with their special tax-exempt status.

(1) Principal loan terms will be lengthened from five to seven years in the case of unsecured loans and from ten to twelve years in the case of secured loans.

(2) Lines of credit would be permitted to account for different credit ratings and for individual circumstances of different members, thereby permitting more flexibility in the making of loans.

(3) Authority would be given to credit committees to offer pre-approved credit programs or lines of credit. This would permit the small credit union member to plan better his financial affairs with greater certainty. Credit committees do not presently have authority to offer these lines of credit.

37

(4) Credit unions would have authority to issue share certificates with varying dividend rates and varying maturities subject to regulations promulgated by the Administrator. This provision would permit credit unions to issue certificates which would attract their members' long-term savings and increase availability of credit union funds.

(5) The Administrator of the NCUA would be given authority to permit loans to be made at a rate of interest exceeding the maximum one percent per month. This provision would give the Administrator standby authority to assure that loans would be available to the small credit union member during periods of high interest rates.

(6) Credit union directors and members of supervisory or credit committees would be permitted to have their loans secured by collateral not otherwise encumbered or pledged and approved by the credit committee. At the present time, credit union shares are the only collateral permitted by law on loans to these individuals. This provision would encourage a greater participation in credit union affairs by removing some of the strictures on directors and committee members, while retaining safeguards for the credit unions.

(7) The present restriction on the payment of dividends to annual, semiannual or quarterly payments, would be changed to conform to modern corporate practice by permitting payment of dividends at such intervals as the Board of Directors may authorize.

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 the many government 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 administered rates have kept costs down, which they haven't

34

the consequence has been decreased funds available for housing.

RECOMMENDATION - Therefore, our recommendations are as follows:

The National Housing Act will be amended to remove statutory and administrative rate ceilings on all Housing and Urban Development insured mortgages. Interest rates for mortgages and loans insured under the Act would be at the rate agreed upon by the mortgagee and mortgagor. 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.

The authority of the Administrator of the Veterans Administration to set interest ceilings on VA guaranteed or insured loans would be rescinded. The Administrator would retain the authority to determine the interest on loans made directly from federal funds to certain veteran purchasers.

Issue 7

TAXES

Background

In light of the expanded powers to be granted thrift institutions and the overall goal of allowing all financial institutions to compete on equal footing, the basic objective of the

income tax proposals is a uniform tax formula.
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 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 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 such changes are made, conforming amendments will have to be made to a number of other provisions of the Internal Revenue Code which currently reflect the difference in 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 viewed as full compensation to thrift institutions for the loss of tax benefit resulting from eliminating the special bad debt reserve deduction.

RECOMMENDATION - With this as background, our recommendations include:

The special reserve provisions applicable to thrift institutions will be eliminated and all thrift institutions will compute reserve additions under methods similar to the ones 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.[4/]

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4 / 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. The Federal National Mortgage Corporation and the Federal Home Loan Mortgage Corporation will not be eligible for the tax credit.

34

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 been calculated so as to give thrift institutions full compensation, in fact, over-compensation, for the tax benefit they would have received 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 5/ and provide an incentive to other lenders to increase their level of investment in residential mortgages, the credit will be multi-level. For institutions which have invested over 70% of their assets in residential mortgage loans, a tax credit (not a deduction) equal to 3.5% of the residential mortgage interest income will be allowed. If less than 70% 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

5/ 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.

55% of their assets in residential mortgages (the average for mutual savings banks) would receive a 3.0% tax credit; a 40% insitution would receive a 2.5%; a 25% institution would receive a 2.0%; and a 10% institution 1.5%. Individuals would receive a flat 1.5%.

By structuring the tax credit in this manner, a double incentive for residential mortgage lending is provided as the mortgage portfolio of an institution's increased. Not only does the institution qualify for a larger tax credit, but also that credit applies to the entire interest income from residential mortgages. Thus there is an ever-increasing incentive for higher investment in mortgages. Furthermore, if an institution has less than 10% of its assets devoted to mortgages, there is a tremendous incentive to reach at least the 10% level. For example, if a bank has only 8% in mortgages (the national weighted average), there would be a tremendous incentive to increase to the 10 percent investment level. Additionally, a bank will not want its mortgage portfolio percent to fall. Therefore, as a bank's size increases, there is incentive to increase mortgage assets at least as fast as its overall growth.

31

The benefit to various groups from this tax credit, based on estimated 1973 residential mortgage interest income, will be approximately:

	Million $
Savings and Loan Associations	$483
Mutual Savings Banks	120
Life Insurance Companies	47
Commercial Banks	13
Finance (mortgage) Companies	13
Individuals	9
	$685

This represents a net loss to the Treasury of approximately $154 million a year since the bad debt provisions applicable to thrift institutions 6/ are to be eliminated, and their elimination will result in a gain to the Treasury of about $531 million annually ($471 million from S&L's and $60 million from MSB's).

CONCLUSION

In closing, Mr. Chairman, I would like to address specifically four criticisms which have been levied against

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6/ The $531 million figure represents the tax value of the current bad debt reserve deduction based on a percentage of taxable income deduction of 43 percent, the percentage which under current law would be applicable for 1976. The 43 percent figure was used to compute the amount of the mortgage interest tax credit necessary to compensate S&L's for the loss of the bad debt reserve deduction.

these proposals. We do not wish to duck these tough questions because we considered them at great length while arriving at our recommendations. The criticisms most often raised are: (1) These recommendations will bring an end to specialized institutions. (2) A cut-throat, interest-rate war will immediately develop and threaten the safety and soundness of all banks and thrift institutions. (3) These recommendations will completely kill the housing industry. (4) No affected industry group endorses the entire package; therefore, the recommendations stand no chance of Congressional passage.

Mr. Chairman, I would be less than candid if I said that these were easy questions, and we recognize that there will be differences of opinion; but the fears which underlie some of the criticisms are not new. They are predictable reactions from the various interested groups. Each criticism is designed not with the hope of eventually designing a more efficient financial system, but rather with a hope of preserving a particular, exclusive franchise that one group has versus another. Although much emotion can be attached to each of these criticisms, calm and thoughtful deliberation reveals the fallacy in each.

Typically any change involving various competitive interests is resisted because people are comfortable with the familiar and each industry is jealous of its exclusive

38

franchises. Although many recognize that our present system is inadequate in many ways, they summarily conclude that "The Devil we know is better than the Devil we don't." Ironically, each industry is ready to embrace "unknown devils" when they entail new powers for their industry, but are horrified when new powers are given to their competitors. The Congress and the Administration must work together to determine the changes which will serve the best interests of the American people -- the savers, the borrowers, and the financial institutions.

With respect to the first issue -- the end of the specialized institution -- I should point out that we are not forcing any institution to offer any of the improved services. We are merely allowing institutions -- primarily the specialized thrift institutions -- to provide fuller services to their communities. We are not forcing any specific package or service on any institution. If institutions offer expanded services, it will be because of demand from the public or increased competition from rival institutions. The system we now have is one of "forced specialization" -- a system which is inflexible and does not allow institutions to adjust adequately to economic change. Who is to say that the Federal government can design a perfect "specialized institution" when in fact specialization should come by natural, competitive forces and from the need to adapt each institution to fit its own community's needs. Those who contend that all banking and savings institutions will soon be identical are arguing from emotion rather than fact. Specialty boutiques can compete against large department stores, specialty grocery stores compete against the supermarkets and specialty investment firms compete against the large investment banking houses. Is the banking system different? Of course not. There will always be a demand for the small and personal or specialized bank or savings and loan association. Homogenization of the U.S. banking system will not occur, just like it has not occurred in any other U. S. industry.

A second criticism is that the removal of Regulation Q will result in a furious cut-throat, interest-rate war. Many harken back to the days of the Great Depression and recount how the banking system collapsed. Interest rate competition in the '30s did not cause bank failures; poor investments did. Other people will contend that our recent experience with the 4-year consumer certificate of deposit -- dubbed a "wild card" -- was a total failure. Nothing could be further from the truth. In fact, had it not been for the ability of S&Ls and banks to pay market rates on 4-year certificates, their loss of deposits would have been astronomical. In fact, after the initial introduction of these certificates with rather high deposit interest rates coupled with extravagant advertising, the banking and savings industry matured rather quickly. Contrary to what some people would have us believe, the rates paid on consumer certificates of deposit did not run wild. A survey of 190 of the largest banks reveals that 20 percent of these certificates were issued by them at a rate under 5-1/2 percent; that about 30 percent were issued by them under 7 percent; and that 85 percent were issued under 7-1/2 percent. Further, a survey of 300 of the smaller banks shows that 50 percent of the consumer certificates were issued by these banks at a rate under 5-1/2 percent and about 85 percent were issued under 7-1/2 percent.

Thus, I simply do not believe the argument that bankers must be protected from each other or regulated and restrained to the lowest common denominator of management competence. Should the small, unsophisticated savers be penalized for the potential abuses of a few bank and savings and loan managers? We believe that consumer-savers should receive the highest possible interest rate return on their savings that the market will bear, and that any management incompetence should be dealt with on a more selective basis by the regulatory agencies.

A further criticism of most changes in the financial system, whether it be a small increased power here or a change in a tax provision there, is that such changes will have a disastrous effect on housing. No one issue occupied more of our time than the problem of the flow of funds to this sector. All of us appreciate the importance of housing to our country's well-being. However, the people who raise fears about what these recommendations may do to housing are the same ones who lament over the poor state of housing and housing finance in our country today. Our in-depth studies conclude that even without any increased tax incentives for housing, there would be minimal, if any, adverse impact on housing finance from these recommendations. However, with the addition of a tax credit which will be available to all institutions and individuals, there can be little doubt that not only will there be more money available for housing finance but more importantly that such money will be more constant and predictable and that we will be less likely to have the stop-and-go of mortgage funds that we have witnessed three times in the past seven years.

Why will the President's recommendations have a positive effect on housing? 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. The reduction, however, would be small. Elimination of interest rate ceilings for commercial banks may increase competition for savings and loan associations and mutual savings banks and thus might contribute to the negative effect, but this is unclear.

However, 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. Additionally, banks will be forced by their S&L competitors who can now offer full family financial services to make mortgage loans more aggressively.

Finally, great ease and higher rewards for personal savings should induce greater savings which in turn should provide more funds for all financial intermediaries.

It is believed that the net effect on mortgage flows of all these nontax factors is 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 during periods of financial restraint.

A fourth criticism of our recommendations is that since no group supports the entire package, it stands little chance of Congressional passage. Almost by definition, the fact that each group likes much of our package but will not endorse the entire package reflects the fact that it is a balanced approach to the problems of all groups. However, each group may feel that it can get a better deal if it opposes the package as submitted. Nevertheless, it is critical that the legislation be viewed as a whole, and by doing so, the ultimate beneficiary will be the consumer because he will be provided with better financial services at a lower cost.

In closing, Mr. Chairman, I think it is evident that many thousands of hours have been spent on the formulation of a coordinated approach to banking reform, not only by the Hunt Commission, but also by the Administration. We have evidence of the need for change, we have completed the necessary studies to adopt meaningful change, and I suggest that the time for that change is now.

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

For Release on Delivery

REMARKS OF MATTHEW J. MARKS
DEPUTY ASSISTANT SECRETARY OF THE TREASURY FOR
TARIFF AND TRADE AFFAIRS
BEFORE THE
U.S. IMPORT CONTROLS AND TRADE
REFORM CONFERENCE
NEW YORK, N.Y., NOVEMBER 7, 1973
11:00 A.M.

TRADE REFORM AT THE TREASURY DEPARTMENT AND CUSTOMS SERVICE

Introduction

You will note that I have changed slightly the format of the address that I am giving before this distinguished gathering. This is on the assumption that what you wish to hear about from me is how the Trade Reform Bill will impact the Treasury Department and its Customs Service.

If the Bill is enacted in substantially its present form, it will have substantial administrative impact, particularly on the Customs Service, requiring many additional manhours to administer the law. However, I will confine my remarks to the major policy implications of the Trade Reform Bill from the standpoint of the Treasury Department and its Customs Service.

Antidumping

Public comment on the rationale of HR 10710 and the changes that it portends in the administration of the Antidumping Act have tended to categorize the Bill's revisions of the present law as "technical." I believe these statements are misleading, for the Bill makes significant changes in the statute.

Improved Treasury Administration of Antidumping Act

Before commenting on these changes, I would like to emphasize with pride the improvement in the administration of the Antidumping Act which has taken place over recent years. It was not very long ago that antidumping investigations by the Treasury Department took a long time to complete -- far too long. Some investigations required two years and more. This operated to the disadvantage not only of American producers complaining about alleged unfair trade practices, but also to the foreign exporter and American importer who were confronted with many months of prolonged uncertainty while the Treasury investigation was in process.

The time required to complete investigations has diminished by 50 percent between FY 1973 and FY 1968. During this same period the number of final Treasury decisions has increased almost threefold. Treasury took 42 final antidumping actions in FY 1973, in contrast with 16 in FY 1968.

Fuller Explanation of Decision-Making Rationale

Even though many members of Congress have publicly commended the Department for its improved administration of the Antidumping Law, both Congress and the Executive Branch, in considering the Trade Reform Bill, explored what further improvements could be made. What is perhaps the most important antidumping provision in the Trade Reform Bill has been relatively overlooked in public comment. I am referring to the language in HR 10710 which requires that published determinations of the Treasury Department and Tariff Commission must contain a statement of findings and conclusions "and the reasons or bases therefor, on all the material issues of fact or law presented."

Although the Treasury Department prides itself on its professionalism and regard for precedent in administering the Antidumping Act, this is not always apparent to outsiders. The reason for this -- to be quite candid -- is that the Treasury's decisions tend to be skeletonized and ritualized. They recite only the minimum facts necessary to substantiate the Department's legal conclusions.

42

With the provision in the Bill, which I have just quoted, it will be possible for legal practitioners, American producers and foreign exporters and American importers to determine better the precedents followed by the Treasury Department in reaching its decisions. Thus, much of the 'mystery' will be dispelled as to how the Treasury deals with adjustments to export prices to the U.S. and foreign market prices. Its treatment of tax rebates, quantity discounts, circumstances of sale adjustments, and similar factors affecting fair value comparisons will be clarified.

Sales Below Cost

Another significant change in the Antidumping Act provided for in HR 10710, is that dealing with sales below cost. Many of you will recall that the Treasury Department recently determined that sales below cost were not encompassed, per se, in the Antidumping Act. The Ways and Means Committee felt that it would not be reasonable to require American producers to compete with foreign sales below cost. The Bill therefore amends the Antidumping Act to cover such sales.

Let me explain in over-simplified fashion how this would operate. A foreign firm sells a product in its home market price of 12. It sells the same product in the United States for 12. At present this would lead to a determination of no sales at less than fair value.

If the cost of production in my hypothetical were 14, the Treasury Department, under the present law, would still find no sales at less than fair value. Under HR 10710 the Treasury would be required under certain circumstances to exclude, for fair value comparisons and foreign market value purposes, all sales in the home market price, thereby resulting in a dumping margin, which under present law would not exist.

The sales below cost provision was very carefully drafted not to encompass within its scope below cost sales which are in accordance with traditional international trading practices -- American as well as foreign.

Sales below cost under the provisions of the Bill would have to take place over an extended period of time in substantial quantity. This will exclude the producer who has manufactured a lemon and seeks to sell his inventory for whatever price he can obtain; it will also exclude year end close-out sales.

They must be made at prices which do not permit the recovery of all costs, fixed and variable, within a reasonable period of time in the normal course of trade. This will exclude, in the case of a complicated product involving substantial research and development, a requirement that these research and development costs be recovered within a year or two.

The Bill does not require the Secretary of the Treasury in every antidumping investigation to examine whether there have been sales below cost. This would be an impossible burden, particularly under the expedited time limits provided for in the Bill. The language of HR 10710 states that sales below cost will be examined "whenever the Secretary has reasonable grounds to believe or suspect" that sales below cost are taking place within the meaning of the Bill.

Sales By Another

Under the Antidumping Act, as presently phrased, when a firm's sales in its home market are inadequate to provide a basis for fair value comparison, the Treasury is required to look at the home market price of the nearest similar merchandise sold in the home market, by a competitor. This means that Firm A in a particular country may be penalized for the sales practices of Firm B.

Under the Bill as reported out by the Ways and Means Committee, if Firm A's sales in the home market are inadequate to provide a basis for fair value comparison, the Treasury will then turn, not to Firm B's sales in the home market, but rather to A's sales to third countries, and compare these to the prices at which A sells to the United States. And if A's sales to third countries are likewise inadequate to provide a basis for fair value comparison, then the Treasury will use A's "constructed value" as defined in the statute.

Other Changes

In addition to the changes outlined above, the Bill makes other changes in the statute which are primarily administrative in nature. I shall allude to three of the most important of these.

Time Limits

One will require that tentative Treasury decisions be made within six months after the formal initiation of an antidumping investigation; or in more complicated cases within nine months. The Committee on Ways and Means has indicated in its report accompanying HR 10710 that investigations generally will be initiated 30 days after proper information relating to dumping has been received.

These proposed limits parallel closely those which are presently being adhered to by the Treasury Department. However, they are more stringent than those currently provided for in Treasury's revised Antidumping Regulations. The Ways and Means Committee, although generally satisfied with Treasury's expedited investigation procedures, desired to make certain that they would continue to be followed by legislating formal time limits into the Antidumping Act.

Although the advantages of rapid processing of antidumping investigations are considerable, Treasury and Customs recognize that care must be taken to preserve the quality, thoroughness and fairness of the investigation if equitable results are to be achieved. Fair investigations can and will continue to be conducted under the time limits prescribed under HR 10710.

Hearing Requirements

The present law does not require either the Treasury or the Tariff Commission to conduct a hearing. In fact, however, such hearings have invariably been conducted when requested by an interested party. The Ways and Means Bill contains a statutory requirement that a hearing be held when requested. It also contains a requirement that the hearings be transcribed and that the transcript be made available to interested parties. Most important, the Committee report on the Bill makes clear that the non-adversary nature of antidumping investigations is to be preserved. It therefore exempts these hearings from the requirements of the Administrative Procedure Act. This will enable the Treasury and the Tariff Commission to continue to treat in confidence sensitive pricing and other trade information furnished to these agencies in the course of their investigations.

Sales by State Controlled Economy Countries

The Bill enacts in statutory form the procedures currently followed by the Treasury Department in conducting investigations of sales by a state controlled economy country. In essence, the procedure is as follows -- since state controlled economy countries operate under an administered price system, the use of home market price in such situations would be relatively meaningless. The Treasury therefore compares the home market price of the nearest similar merchanidse sold in a non-state controlled economy country with the price at which the state controlled economy country sells its product to the United States.

Summary

To summarize, the changes in the Antidumping Act made by the Bill will work to the advantage of everyone -- American complainants and importers, and foreign producers. It will encourage expedited, equitable administration of the Antidumping Act in a manner consistent with the Administration's liberal trade policy.

Countervailing Duties

The amendments in the Trade Reform Bill relating to the Countervailing Duty Law, in sharp contrast to those involving the Antidumping Act, require significant changes in Treasury's administration of the former statute. This is due to a number of factors.
-- For one thing the Countervailing Duty Law has remained substantially unchanged since 1897. The problem therefore is to modernize the statute, making it a meaningful vehicle to defend the United States against unfair trade practices typical of the 20th Century.
-- Another important distinction between the Countervailing Duty Law and the Antidumping Act is that there is a detailed code of international conduct in the antidumping field which ensures that antidumping laws are administered by all governments in substantially the same manner. No such detailed agreement has been reached in the countervailing duty area. Indeed, there is considerable international disagreement even as to what constitutes unfair subsidies!

44

-- And finally, the administration of the Countervailing Duty Law entails vastly different considerations than those under the Antidumping Act, in that the former involves actions of Governments in contrast to the Antidumping Act, which involves pricing actions of the individual companies.

In all candor it must be recognized that many interested people, including some in the Congress, are less than happy with Treasury's administration of the Countervailing Duty Law. Many members of the Congress apparently feel that subsidized imports are being allowed to enter the United States and that the Treasury has failed to take appropriate action under the statute. Many members also feel that foreign governments are subsidizing their exports to a far greater degree than the United States subsidizes its exports.

In light of these reactions, it is not surprising that the countervailing duty section of the Bill which was reported by the Ways and Means Committee is quite different from that which was recommended by the Administration to the Congress.

Notwithstanding these differences, the Administration believes that the Bill, as reported out, is workable from an administrative standpoint, and -- most important -- places the Administration in a position to negotiate successfully an international agreement regarding subsidy practices, perhaps ultimately leading to an International Countervailing Duty Code.

We in Treasury regard the countervailing duty section of HR 10710 as a temporary measure pending these international negotiations. As mentioned by Assistant Secretary Morgan in his keynote address, the Administration plans to maintain very close contact with the Congress in negotiating not only on subsidies but also on all other international trade matters. If, as we hope, an international agreement is reached on subsidies which impact international trade, and such agreement is approved by the Congress in the manner provided for under the Bill, it will very likely be necessary to submit to Congress a new amendment to the Countervailing Duty Law to bring the present United States countervailing duty provisions into conformity with whatever international understanding may be reached.

Time Limits

The most important amendment to the Countervailing Duty Law would require the Secretary of the Treasury to decide within 12 months after a question is presented to him whether "bounties or grants" are being paid or bestowed under the statute. Under the present law, there is no time limit for the completion of investigations. The Treasury has committed itself, upon enactment of the Bill, to amend its Countervailing Duty Regulations to require that within 30 days after a complaint is filed a decision be made regarding the adequacy of the complaint and whether an official investigation should be opened.

Discretionary Authority

The Ways and Means Committee recognized that the imposition of this 12-month time limit could require the Treasury Department to act on complaints involving certain types of measures, allegedly constituting "bounties or grants" within the present meaning of the statute, which are inextricably entwined in the basic economic structure of our principal trading partners.

The Committee also recognized that measures such as these are bound to be the subject of intensive discussion in the forthcoming international trade negotiations.

Finally, the Committee took note of assertions that certain practices, which might constitute "bounties or grants" within the meaning of our Countervailing Duty Law, are also carried out by the United States in connection with its export programs.

Mindful of the potential damage that certain countervailings would have on the negotiation of an international agreement on these extremely difficult and delicate issues, the Committee authorized the Secretary of the Treasury to refrain from countervailing in areas where he determines that such actions would be likely to seriously jeopardize the completion of these negotiations. The discretionary authority granted to the Secretary under this provision is limited to four years on the theory that, failing the success of the international negotiations, the Countervailing Duty Law will be administered as provided for in the Bill.

45

The Committee granted similar discretionary authority to the Secretary with respect to any "bounties or grants" on "any article which is the product of facilities owned or controlled by a developed country if the investment in, or the operation of, such facility, is subsidized." In this latter case, however, the Committee restricted the discretionary authority to one year.

The Committee also granted discretionary authority to the Secretary to refrain from countervailing products that are subject to quota restrictions or effective quantitative limitations on their exportation to the United States, if the Secretary feels that these actions are an adequate substitute for countervailing. There is no time limit on the exercise of this latter dis-discretionary authority.

Judicial Review of Negative Countervailing Duty Decisions

Under a decision handed down by the Court of Customs and Patent Appeals in 1970, it was determined that American complainants had no right of appeal to the Courts against a negative ruling by the Secretary of the Treasury on a countervailing duty complaint. The Ways and Means Committee and others have expressed concern that this judicial ruling might adversely affect the ability of American producers to obtain meaningful relief under the Countervailing Duty Law, and therefore the Committee amended the statute to provide for such a right of judicial review. The Committee felt that American producers should enjoy the same right of judicial review in the Customs Court as is available for importers who are presently entitled to judicial review of the actual assessment of countervailing duties.

Extension of Countervailing Duty Law to Duty-Free Merchandise

Whatever the reasons may have been prior to 1930 for restricting the scope of the statute to dutiable merchandise, these are no longer valid today. In recent years there has been a market increase in categories of duty-free imports. To the extent that these imports are subsidized and cause injury to American industry, it no longer makes sense to exempt them from the provisions of the Countervailing Duty Law. Accordingly the Trade Reform Bill, as reported out by the Ways and Means Committee, extends the present Countervailing Duty Law to duty-free merchandise, but coupled with a requirement that the Tariff Commission determine injury. The injury requirement for duty-free articles will prevail only as long as this is required under the international obligations of the United States. Under this amendment of the Countervailing Duty Law, the Tariff Commission would be required to make an injury determination with respect to non-dutiable imports within three months after the initial determination by the Secretary of the Treasury that a "bounty or grant" is being paid or bestowed. The amendment is worded so that countervailing duty orders against non-dutiable items would be effective at the same time as against dutiable merchandise.

Summary

The amendments of the Countervailing Duty Law represent a compromise. They reflect the very strong sentiment of the Ways and Means Committee that the Countervailing Duty Law should be administered far more vigorously than at present. However, at the same time the temporary discretionary authority granted to the Secretary allows the essential flexibility required for reaching an international understanding on these extremely difficult and complex issues. The Executive Branch is fully aware of the desires of the Committee on this subject, and is prepared to undertake international negotiations on these issues, working in close conjunction with the Congressional Committees concerned. The temporary discretionary authority accorded the Secretary of the Treasury in the Bill will avoid placing the Executive Branch in the impossible position of countervailing the very actions which are the subject matter of the negotiations.

The Treasury Department will not invoke the discretionary authority frivolously or in a way that frustrates the clearly expressed desires of the Committee.

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46

FOR RELEASE WEDNESDAY, A.M., NOVEMBER 7, 1973

JAMES J. ROWLEY
PRESENTED
ALEXANDER HAMILTON AWARD

Secretary of the Treasury George P. Shultz presented the Alexander Hamilton Award to James J. Rowley, Retiring Director of the United States Secret Service, at a dinner in Mr. Rowley's honor at the Washington Hilton Tuesday evening.

The Alexander Hamilton Award, which includes a gold medal, is conferred only to recipients whom the Secretary personally designates. Mr. Rowley received the award for "exceptional professional competence and leadership in the work of the Secret Service."

Mr. Rowley's citation reads:

"As Director of the United States Secret Service for the past twelve years he played a major role in a comprehensive reorganization of the Service which had a great impact on both its protective and investigative activities. Time and again, his capacity to maintain the highest levels of organizational effectiveness in the face of change and expanded responsibility was tested and found true. Thus, the Secret Service was able to take in stride a steady stream of added functions including protection of former Presidents of the United States, major Presidential and Vice Presidential candidates and visiting dignitaries. In addition, the White House Police force was expanded and renamed the Executive Protective Service. Investigative operations were also vastly enlarged.

"Mr. Rowley's strong interest in the professionalization and development of Special Agents resulted in increased emphasis on law enforcement training and public understanding of law enforcement. He was influential in the establishment of the Consolidated Federal Law Enforcement Training Center.

"Throughout his thirty-five years of Federal Service, Director Rowley has adhered to the highest standards of excellence and devotion to duty."

Mr. Rowley's career included service under six Presidents.

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47

FOR IMMEDIATE RELEASE November 7, 1973

H. STUART KNIGHT

APPOINTED AS DIRECTOR OF THE SECRET SERVICE

Secretary of the Treasury George P. Shultz announced today the appointment of H. Stuart Knight, 52, as Director of the Secret Service. Mr. Knight, who has been Assistant Director of the Secret Service for Administration since April 1971, is a career Secret Service Agent with over 23 years of duty. He succeeds James J. Rowley, who retired at the end of October.

As Director of the Secret Service, Mr. Knight will head a 2,800 person organization whose principal responsibilities are protection of the President and his immediate family, the Vice President, visiting foreign dignitaries and Presidential Candidates, as well as investigating violations of law involving counterfeiting and forgery of United States Government Obligations.

Mr. Knight joined the Secret Service in February 1950, after serving as a police officer in Detroit, Michigan, and Berkeley, California. After a year as a special agent with the Detroit Field Office, he came to Washington for duty on the Presidential Protective Detail, which was continuous until 1961, with the exception of a 15 month tour as a special agent with the Washington, D.C. Field Office in 1955 and 1956.

In March 1961, Mr. Knight became Special Agent in Charge of the Vice Presidential Protective Detail. In early November 1963, he was assigned to the Special Investigations Division at Secret Service Headquarters as Special Agent in Charge.

In 1965, Mr. Knight was selected by the National Institute of Public Affairs as the recipient of a Career Education Award and spent the academic year 1965-1966 in graduate study at Princeton University.

After a brief tour as an Inspector at Secret Service Headquarters, Mr. Knight was transferred to the Los Angeles Field Office in October 1966 as Assistant Special Agent in Charge. In January 1970 he returned to the Washington, D.C. Field Office and served as Special Agent in Charge until his appointment as Assistant Director for Administration.

Mr. Knight was born on January 6, 1921, in Sault Ste. Marie, Ontario, Canada and grew up in Detroit, Michigan.

He served in the U.S. Army from 1942 to 1946 and during service in the Pacific Theater, was awarded the Silver Star, Bronze Star and the Purple Heart.

Mr. Knight graduated from Michigan State University in 1948 with a degree in Police Administration. In addition to his year at Princeton, he has also attended the Industrial College of the Armed Forced during the Spring of 1962.

In 1958, Mr. Knight was given Treasury's highest award, Certificate for Exceptional Civilian Service, as a result of his work during the trip of then Vice President Nixon to Caracas, Venezuela.

Mr. Knight is a "fellow" of the National Institute of Public Affairs, a member of the American Society for Public Administration, the International Association of Chiefs of Police, and Alpha Phi Sigma an Honorary Police Society. He has been a consultant to the University of Maryland in re-establishment of its Police School and Chairman, in 1964, of the Vienna, Virginia Public Safety Commission.

Mr. Knight is married to the former Betty L. Cooley, of Lewiston, California. They have two daughters and three sons and reside in Falls Church, Virginia.

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ASHINGTON, D.C. 20220 TELEPHONE WO4-2041

48

FOR RELEASE ON DELIVERY

Remarks of The Honorable Edward L. Morgan
Assistant Secretary of the Treasury for
Enforcement, Tariff and Trade Affairs, and Operations
before the
U.S. Import Controls and Trade Reform Conference
New York, New York
November 7, 1973
9:30 a.m.

It is indeed a privilege to be with you today for the Import Controls and Trade Reform Conference. I think it is readily apparent from the agenda for today's and tomorrow's events that you have stimulating sessions in store. You are dealing with a number of problems which are of concern to all of us, both in the United States and abroad: controls on unfair trade practices; the trade negotiating authority of the President; controls on increased competition; most favored nation treatment; and the trade reform program as viewed from abroad.

Since you will share the views of many outstanding experts in these fields during the course of your workshops, I will confine my remarks to a broad overview of the United States objectives in the trade field.

As you all know, we are launched on a program which will involve a series of difficult and far-reaching international trade and commercial negotiations. Involved in these negotiations are matters of immediate and important interest to all of us: jobs; wages and profits; and the availability and prices of food and other essential products and services. It is not an exaggeration to say that what we are discussing

S-323

is the standard of living over the next decades for hundreds of millions of people everywhere.

Considerable groundwork has been laid for the international negotiations which are now beginning, and can be expected to take some years to complete. The GATT meeting in Tokyo last September was the first formal step to initiate these negotiations. As Secretary Shultz noted at the Tokyo meeting: "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."

Hand in hand with these trade negotiations, we are working to arrive at a new international monetary understanding. Referring to the close interrelationship between the trade reform program which is now under way and the reform of the world monetary system, Secretary Shultz noted that: "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."

In the trade area, the Administration has two major objectives: to increase world trade; and to improve the world trading system. The two are inextricably linked.

To my mind, there is no question about the desirability of increasing world trade, other than to emphasize that in addition to creating jobs and assuring products at lower cost, trade helps to control inflation by providing competition.

Ambassador Eberle, the President's Special Trade Representative, stated in clear and simple terms in a speech given on October 1 at the Economic Club in Detroit why we seek to change and improve the world trading system:

> "We want to reform the trading system because when you increase world trade, you have to manage it with understandable rules throughout the world, in

 49

order to keep economic tensions and commercial irritations down to a level at which they do not poison other relationships with other countries."

The Trade Reform Bill of 1973 represents the culmination of the first step in a long and arduous road ahead to international trade reform. It will authorize the President to enter into the international negotiations which are necessary to reform the world trading system. Our trading partners are understandably reluctant to negotiate with us over both the reform of the system and reduction in trade barriers if we do not have adequate authority to implement the agreements we all seek.

The Trade Reform Bill is designed to provide U.S. negotiators with the negotiating credibility necessary to conclude agreements which are in the interest of not only the United States, but of the entire world.

The first part of the Bill reported out by the Ways and Means Committee (H.R. 10710) would give the Administration authority to eliminate tariffs of 5 percent or less; reduce by 60 percent existing tariffs ranging between 5 and 25 percent; and to reduce tariffs above 25 percent by three-quarters down to a 10 percent floor. This should represent substantial authority in the tariff reduction field, certainly more than sufficient to establish the necessary negotiating credibility of the United States with its trading partners. It goes without saying that this authority would not be used in the absence of reciprocal concessions by our trading partners.

H.R. 10710 also gives the Administration a procedure for the implementation of agreements to reduce and eliminate non-tariff trade barriers. As we all know, many of these NTB's are far more important than tariffs in inhibiting international trade; that these constitute the hard core of the trade restrictions with which we intend to deal. Under the Bill we can negotiate agreements on reducing or eliminating these NTB's, with advance Congressional advice, and then submit the agreement to Congress. They will become effective unless vetoed by either House of Congress within 90 days.

This procedure should meet certain foreign criticism that we have failed to obtain Congressional approval to an agreement which had been entered into ad referendum. In the Ways and Means Committee Bill, the Congress is agreeing to give a mandate to U.S. negotiators which will establish their credibility, while at the same time preserving the traditional Constitutional prerogatives of the Legislative Branch. During the negotiations, the Administration intends to maintain close liaison between the negotiators and the principal Congressional Committees concerned. We also believe that negotiating credibility will be enhanced by the Administration's plans to keep close contact with the American business community and with American labor in order to share their views.

In the words of Ambassador Eberle:

> "We have every reason to believe the tariff and non-tariff authority in the Bill will give us all we need to negotiate successfully with our trading partners, which sometimes are more accurately described in business terms as our trading competitors."

The second part of the Trade Bill relates to managing day-to-day trade problems both here and abroad. The Bill clarifies the authority of the President to retaliate against foreign restrictions which burden U.S. commerce. It covers restrictions which are unreasonable as well as those which are unjustifiable. And, in contrast to Section 252 of the Trade Expansion Act, it provides for the same remedies regardless--whether it is our industrial or agricultural exports which are burdened. Hopefully, we will not have to use such retaliatory authority. The very fact that our trading competitors know that the President has this authority should make its use unnecessary.

H.R. 10710 will not only make it possible for the U.S. to react to special situations, but will liberalize the statutory and administrative criteria and procedures for the granting of trade adjustment assistance to firms and workers, and import relief when such measures are required

50

to aid domestic industry to adjust to injurious imports. Under the Bill we would have authority to compensate our trading partners for escape clause actions. The present absence of such authority has created problems in the conduct of our international trade policy.

Another important area of the Bill will provide a Generalized System of Preferences to the developing countries which comprise 70 percent of our world's population. Our aim here, in large part, is to stimulate the foreign exchange earnings of these countries so that their citizens can be better fed and housed. However, in all candor I must say that the provisions of this title go well beyond humanitarian considerations. As the standard of living of the developing countries improves, they will consume more and import more from the United States.

Our major trading partners have already granted generalized preferences to developing countries. What we are seeking in the Bill is authority to carry out previous international commitments which, in the long run, will prove advantageous to all countries, developed as well as developing.

Another provision of the Bill would give authority to the President to grant Most Favored Nation treatment to state trading countries with non-market economies which do not now receive such treatment. As you all are very much aware, the Ways and Means Committee added a provision to the Bill which would prohibit the President from granting MFN treatment to any country which restricts freedom of emigration from that country. This matter, as you know, continues to be the subject of some controversy and debate.

An important aspect of the forthcoming international trade negotiations is the state of the domestic economy of the United States. At long last the U.S. balance of trade has shown a dramatically favorable about-face. There is now a good chance that the United States will have a trade surplus for 1973. This development is attributable in large part to the Administration's success in achieving a more rational relationship between the dollar and other currencies, and in holding down our domestic rate of inflation. Our inflation rate, although still too high, is nevertheless lower than that of most of our principal trading partners. These developments are important not only from a technical, trade and monetary standpoint but also because they are symbolic of our determination to do what is necessary to participate responsibly in a new improved world trading system. Some countries have, in the past, expressed doubt as to whether we would have the fortitude to take the measures necessary to achieve these ends. The doubters should now be convinced of our readiness to get down to the serious business of negotiation.

The developments at Geneva last week imposed only what I consider a temporary setback to the international trade negotiations. The European Community, as you know, resisted efforts in the Trade Negotiating Committee to begin to establish the structural framework for the forthcoming trade talks, and, also indicated skepticism over the Administration's ability to deliver in any trade talks. I believe such skepticism is based in part on the delay in Trade Bill action, and in part on the past performance of the Congress in failing to ratify an _ad referendum_ agreement.

I strongly agree with a recent article of the _Wall Street Journal_ which observed regarding the Geneva discussions: "In the trade field, talks are needed not so much to make dramatic strides forward as to break the momentum of backsliding into protectionism." Or as Ambassador Malmgren, Deputy U.S. Special Trade Representative, indicated: "Either you get everybody going in a positive direction or you get slippage in different products in different countries."

So the path ahead will not be easy, as we can see from what is taking place. For example, we have to find

57

some way to manage international food problems. The present system is inadequate in that it leads to cycles of shortage and surplus without providing for rational solutions to either. We have recently experienced both of these and are in the midst of a shortage even now. Solutions to problems such as these must, of necessity, go to the very core of the negotiating that will be taking place in the agricultural area.

We must also negotiate an acceptable international "safeguard" system. Such a system, if successful, would encourage nations to lower their trade barriers. For, to the extent they are permitted under agreed international rules to resort to "safeguard" measures, they will have the necessary time to adjust to import competition over the long run.

We must also negotiate international guidelines dealing with export subsidies and ostensibly "domestic" subsidies which overlap into the international trade area. Subsidies, like other trade distorting devices, are just an example of the many problems which demand resolution if we are to look forward to expanding international trade on a continuing basis.

Nor can we overlook the need to work out appropriate compensation with the European Community for the trade damage to the United States from the EC's enlargement.

But I need not go on describing the problems which lie ahead in these international negotiations, since you will be delving deeply into all of these issues during this conference.

Instead, let me close on a cautiously optismistic note. While the problems ahead seem discouragingly difficult at times, I nevertheless am optismistic that where there is a recognition of mutual self-interest, the necessity to negotiate will eventually assert itself. As we approach the long road of talks ahead, there is one thing that cannot be overlooked and will not be overlooked by any of the governments concerned. It is to <u>everyone's</u> advantage to negotiate an acceptable, equitable, international trade system -- and for that reason, I believe we will!

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WASHINGTON, D.C. 20220 TELEPHONE W04-2041

52

FOR IMMEDIATE RELEASE November 8, 1973

WOLF HABER NAMED
ASSISTANT GENERAL COUNSEL

Treasury Secretary George P. Shultz has announced the appointment of Wolf Haber as Assistant General Counsel. He succeeds Charlotte T. Lloyd who retired this past June.

Mr. Haber, 43, was born in Hamburg, Germany. He received his B.A. degree from Columbia University and his law degree from the University of Michigan Law School at Ann Arbor, Michigan.

Mr. Haber entered government service in July 1958 as a Management Intern with the United States Air Force in Washington, D.C. In March of 1959 he was appointed as an Attorney-Adviser with the National Aeronautics and Space Administration. While at NASA, Mr. Haber held several responsible attorney positions and before joining Treasury he was a Deputy Assistant General Counsel.

Mr. Haber is a member of the District of Columbia Bar, the American Bar Association, the Federal Bar Association, the District of Columbia Bar Association and the American Society of International law.

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He is married to the former Gitta Grabe of Antwerp, Belgium. They reside at 1804 Windmill Lane in Alexandria, Virginia.

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UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH October 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	1,926	1,743	183	9.50
1942	8,502	7,680	822	9.67
1943	13,674	12,370	1,305	9.54
1944	15,949	14,366	1,583	9.93
1945	12,559	11,172	1,388	11.05
1946	5,732	4,946	786	13.71
1947	5,467	4,587	880	16.10
1948	5,669	4,682	987	17.41
1949	5,628	4,571	1,057	18.78
1950	4,941	3,960	980	19.83
1951	4,273	3,426	848	19.85
1952	4,483	3,568	915	20.41
1953	5,137	4,011	1,126	21.92
1954	5,239	4,035	1,204	22.98
1955	5,459	4,168	1,291	23.65
1956	5,278	3,998	1,280	24.25
1957	4,980	3,726	1,254	25.18
1958	4,873	3,555	1,318	27.05
1959	4,577	3,301	1,276	27.88
1960	4,604	3,232	1,372	29.80
1961	4,698	3,180	1,518	32.31
1962	4,574	3,014	1,560	34.11
1963	5,145	3,199	1,946	37.82
1964	5,014	3,124	1,890	37.69
1965	4,903	3,027	1,876	38.26
1966	5,300	3,124	2,176	41.06
1967	5,209	3,060	2,149	41.26
1968	4,948	2,854	2,094	42.32
1969	4,658	2,591	2,067	44.38
1970	4,879	2,412	2,467	50.56
1971	5,618	2,360	3,258	57.99
1972	6,188	2,060	4,127	66.69
1973	4,192	749	3,443	82.13
Unclassified	334	409	- 76	-
Total Series E	194,608	142,259	52,349	26.90
Series H (1952 thru May, 1959) 3/	5,485	4,017	1,468	26.76
H (June, 1959 thru 1972)	9,305	3,169	6,136	65.94
Total Series H	14,790	7,186	7,604	51.41
Total Series E and H	209,398	149,445	59,953	28.63
All Series — Total matured	38,278	38,246	32	.08
All Series — Total unmatured	209,398	149,445	59,953	28.63
All Series — Grand Total	247,676	187,691	59,985	24.22

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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5-B

FOR IMMEDIATE RELEASE November 8, 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 November 20, 1973, in the amount of $1,802,050,000. The bills of this series will be dated November 20, 1973, and will mature November 19, 1974 (CUSIP No. 912793 TZ9).

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Wednesday, November 14, 1973. Tenders will not be received at the Treasury Department, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

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Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on **November 20, 1973** , in cash or other immediately available funds or in a like face amount of Treasury bills maturing **November 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
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55

FOR RELEASE 6:30 P. M. Friday, November 9, 1973

RESULTS OF OFFERING OF $1.1 BILLION STRIP OF WEEKLY BILLS

Tenders for additional amounts of eleven series of Treasury bills to an aggregate amount of $1,100,000,000, or thereabouts, to be issued November 14, 1973, were opened at the Federal Reserve Banks today. The amount of accepted tenders will be equally divided among the eleven issues of outstanding Treasury bills maturing November 23, November 29, December 6, December 13, December 20, and December 27, 1973; January 3, January 10, January 17, January 24, and January 31, 1974. The details of the offering are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	Price	Approximate equivalent annual rate based on 43.1 days (average number of days to maturity)
High	98.977	8.545%
Low	98.953	8.745%
Average	98.962	8.670% 1/

Tenders at the low price were allotted 32%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied for	Accepted
Boston	$ 55,110,000	$ 11,110,000
New York	1,567,830,000	824,725,000
Philadelphia	5,610,000	110,000
Cleveland	16,830,000	5,830,000
Richmond	165,000	165,000
Atlanta	---	---
Chicago	140,030,000	114,070,000
St. Louis	3,300,000	---
Minneapolis	220,000	220,000
Kansas City	660,000	660,000
Dallas	220,000	220,000
San Francisco	363,000,000	143,000,000
TOTALS	$2,152,975,000	$1,100,110,000 2/

1/ This is on a bank discount basis. The equivalent coupon issue yield is 8.88%.
2/ Includes $2,255,000 noncompetitive tenders accepted at the average price.

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

[FO]R RELEASE 6:30 P.M. November 12, 1973

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.5 billion of 13-week Treasury bills and for $1.8 billion [o]f 26-week Treasury bills, both series to be issued on November 15, 1973, were [op]ened at the Federal Reserve Banks today. The details are as follows:

[RA]NGE OF ACCEPTED [CO]MPETITIVE BIDS:	13-week bills maturing February 14, 1974		26-week bills maturing May 16, 1974	
	Price	Equivalent annual rate	Price	Equivalent annual rate
High	97.865 a/	8.446%	95.772 b/	8.363%
Low	97.810	8.664%	95.749	8.409%
Average	97.817	8.636% 1/	95.763	8.381% 1/

a/ Excepting 2 tenders totaling $1,015,000; b/ Excepting 1 tender of $250,000
Tenders at the low price for the 13-week bills were allotted 34%.
Tenders at the low price for the 26-week bills were allotted 30%.

[TOT]AL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 47,675,000	$ 31,675,000	$ 24,690,000	$ 8,500,000
New York	3,203,010,000	2,033,210,000	3,056,160,000	1,476,255,000
Philadelphia	21,315,000	21,315,000	31,405,000	6,405,000
Cleveland	56,930,000	46,930,000	96,080,000	37,915,000
Richmond	19,310,000	19,310,000	14,845,000	11,135,000
Atlanta	20,925,000	20,925,000	13,635,000	13,185,000
Chicago	260,425,000	72,425,000	571,890,000	125,875,000
St. Louis	29,740,000	24,740,000	31,725,000	18,625,000
Minneapolis	124,700,000	116,700,000	46,030,000	32,030,000
Kansas City	36,775,000	31,775,000	26,140,000	21,140,000
Dallas	39,725,000	18,225,000	31,995,000	9,495,000
San Francisco	183,705,000	63,105,000	395,440,000	39,880,000
TOTALS	$4,044,235,000	$2,500,335,000 c/	$4,340,035,000	$1,800,440,000 d/

c/ Includes $347,785,000 noncompetitive tenders accepted at the average price.
d/ Includes $161,440,000 noncompetitive tenders accepted at the average price.
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 8.95 % for the 13-week bills, and 8.87 % for the 26-week bills.

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NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

57

FOR IMMEDIATE RELEASE November 12, 1973

SPECIAL ACHIEVEMENT AWARDS PRESENTED
TO SEVEN TREASURY EMPLOYEES

Assistant Secretary for Administration Warren Brecht today presented Special Achievement Awards to seven Treasury employees.

The awards were presented to the employees in the Office of Administrative Programs, Printing and Personal Property Division. The office's staff supervised the printing of booklets and other material to aid public understanding of Phases I, II, III, IV of the Cost of Living Council Program; the Revenue Sharing Program; the "Tax Reform Act" of 1973; and banking reform.

Accepting the awards for "outstanding and exceptional work well beyond performance requirements" were John J. Morse, Chief, Printing and Personal Property Division, Patrick Gorman, Jack Flood, Donald Ricciadella, Elinor Hatcher, Rose Siokalo, and Patrick Harrington.

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58

FOR RELEASE ON DELIVERY

STATEMENT BY THE HONORABLE PAUL A. VOLCKER
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
BEFORE A JOINT HEARING OF THE
SUBCOMMITTEE ON INTERNATIONAL FINANCE OF THE
HOUSE BANKING AND CURRENCY COMMITTEE
AND THE
SUBCOMMITTEE ON INTERNATIONAL ECONOMICS OF THE
JOINT ECONOMIC COMMITTEE
TUESDAY, NOVEMBER 13, 1973, AT 10:00 A.M.

CURRENT STATUS OF INTERNATIONAL MONETARY REFORM

Mr. Chairmen and Members of the Subcommittees:

The recent Annual Meeting of the International Monetary Fund in Nairobi marked the completion of a year of negotiations in the Committee of Twenty to reform the international monetary system. Alongside these formal negotiations, the past year has also been marked by important changes in the actual functioning of the system. I am glad to report on these matters to your two Subcommittees, and I particularly appreciate your willingness to meet jointly on this occasion.

The status of monetary reform was marked by three procedural steps taken at Nairobi:

S-324

-- Ministers set a deadline for the completion of a basic agreement on reform by the Committee of Twenty by July 31, 1974;

-- They agreed to procedures for facilitating the the Committee's negotiations, and for enabling as much work as possible to be completed well before the agreed deadline; and

-- They published a First Outline of Reform, summarizing the Chairman's assessment of the status of the negotiations thus far.

The deadline for reaching agreement reflects, I believe, the collective political determination to move ahead in the reform work with a clear sense of urgency and dedication. In a sense, it is a prod or a goad to the technicians and negotiators. But it is also a realistic assessment both of what is attainable and what is required. There is no doubt in my mind that, in setting such a deadline, the Ministers mean to meet it.

More generally, the tenor of the discussions at Nairobi ran counter to some doubts and false impressions which had grown in some minds about the negotiations. Certainly, tough issues central to the negotiations remain unresolved. But the Nairobi Meeting did not support an impression that the negotiations are stalemated, with no solution possible or likely within a reasonable time. Nor did I detect any feeling among the politically responsible Ministers that the arrangements that have grown up over the last two years, culminating in the decisions last March of a number of nations to permit their currencies to float, were in themselves a satisfactory substitute for organized reform. To the contrary, I believe virtually all countries went to, and came away from, Nairobi attaching high priority to the reform effort, and with a sense that the remaining issues could be resolved.

To assist in this resolution, a schedule of Ministerial meetings of the Committee was tentatively set for January and March, 1974. Meanwhile, four Technical Groups have been established to explore more thoroughly certain aspects of the reform proposals. These Groups are designed to provide smaller, more informal forums for detailed study of individual elements that might be included in a reformed system, including adjustment rules, convertibility arrangements, the supply and composition of liquidity, and the flow of resources to poorer countries. As these Groups complete their work, together with related efforts by the IMF Executive Board, the C-20 will be in a much better position to finally decide upon the components that will go into a comprehensive reform package.

The "First Outline of Reform"[1/] released at Nairobi notes areas of agreement and issues yet to be resolved. The assessment is the Chairman's: Governments are not committed to specific language, and the Report explicitly and correctly recognizes that agreement on any particular issue is subject to final agreement on the reform package as a whole. The Report does, however, provide a useful benchmark of the progress that has been made in some areas -- and helps as well to highlight certain points at issue. I will comment on several of these in turn.

Adjustment

The problem of balance of payments adjustment is a central issue to be resolved in the reform negotiations. At the highest level of generality, there is agreement on the need to establish clear adjustment rules and disciplines falling symmetrically on surplus

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1/ Copies for Subcommittees have been submitted with this statement.

60

and deficit countries, with adequate incentives and pressures for enforcement. However, the area of agreement has tended to break down as these generalities are placed in a more operational context.

As you know, the U.S. has attached considerable weight to the use of movements of reserves as a so-called "objective" indicator of adjustment needs. We believe this is particularly important in the context of a system of general convertibility, where losses of reserves in any event bring strong, and eventually irresistible, pressures for adjustment on deficit countries.

In general terms, as the "Draft Outline" suggests, the idea of using a reserve indicator has attained support. But agreement has not been reached on the weight to be placed on that or other indicators in helping to guide the adjustment process. In the jargon that has grown up, the question revolves around the degree of presumption toward adjustment action, or in pressures or sanctions to be applied, to be associated with an objective indicator.

In contrast to the U.S. view, there are some governments that would prefer to rely much more fully on "assessment," meaning a more subjective evaluation emerging out of a consultative process. Certainly, an active consultative process is an essential ingredient of an effective monetary system. But, taken alone, experience shows it lacks the essential discipline and certainty that will be necessary. Consequently, present efforts are concentrated on finding an appropriate synthesis combining consultation, assessment, and reserve indicators in a coherent and workable whole.

Means of Adjustment

Questions of adjustment encompass not only which nation will initiate adjustment action and when, but which instruments of adjustment will be used -- for instance, whether domestic monetary or fiscal policies, exchange rate changes, or controls. Again, as a broad generality, there is substantial agreement with the concept that a reformed system should afford national governments that freedom of choice and action which is consistent with the needs of the system as a whole. Moreover, within this framework, there is almost

61

universal recognition of the need to make the exchange rate mechanism more flexible and accessible as an instrument of adjustment than it was in practice in the Bretton Woods system. Thus, changes in par values would not be considered so exceptional an adjustment measure; there would be some provision for floating, and wider margins for exchange rate fluctuation above and below established par values -- on the order of the margins agreed to provisionally at the Smithsonian Institution for non-dollar currencies -- are accepted in principle as a desirable permanent feature of the system.

This degree of consensus on the nature of the exchange rate regime is summed up in the ambiguous phrase "stable but adjustable par values, with provision for floating in particular situations." That phrase is obviously too vague, and too subject to different interpretations, to represent the last word in this sensitive area. For instance, some countries wish to circumscribe the floating option narrowly, by stating it must be transitional or temporary, by closely restricting the definition of particular circumstances, and by directing the IMF to limit its use in other respects. In the view of the U.S. and a number of other countries, however, practical experience strongly suggests that the so-called "floating option" must not be so narrowly conceived; that "particular situations," impossible to define adequately in advance, may well arise in which floating would constitute both the most effective and least disturbing course of action open to a country wishing to act in an internationally responsible manner.

Our own reform proposals, and those of others, contemplate that most countries -- including the largest nations -- will want to maintain established exchange rates; in other words, that "par values" will remain the "center of gravity" of the system. We do not see that as inconsistent with a workable "floating option." What we do feel is that the essential disciplines and rules of the system should be applicable both to the management of par values and to the management of floating exchange rates so that we have a consistent whole. Indeed, viewed in that light, many of the same issues arise whatever the formalities of the exchange rate regime. A floating exchange rate, in my judgment, cannot provide a country with a means for escaping the disciplines and constraints inherent in being a part of an international economy.

Convertibility and Settlement

Closely related to provisions for adjustment are the rules to govern the convertibility and settlement mechanism. Again, there is broad agreement that countries maintaining par values will be responsible for converting into agreed reserve assets those official balances of their currencies which are presented to them for conversion. Beyond that general statement, however, some countries, preoccupied with placing strict controls on use of national currencies in a new system, would prohibit new currency holdings, would make it mandatory that all imbalances from whatever source be settled by the transfer of reserves unless credits are internationally negotiated, and would centralize virtually all official settlements in the IMF.

We have felt that such a system would be overly rigid (as well as overly complicated), and probably break down in the face of sudden strains -- for example, from large movements of volatile capital. On the other hand, we share the concern that, in the context of a new system, we do not again permit the growth of excessive and ultimately destabilizing balances of official currency holdings over longer periods of time.

These problems would appear in a somewhat different light if at least the main countries adopted a so-called "multicurrency intervention system" instead of, as in the past, centering their intervention in the exchange markets so largely in the dollar. One of the Technical Groups is now examining this question.

Controls

Nearly all countries are agreed that there should be a strong presumption that controls on current account transactions would be used, if at all, only in exceptional cases. However, a number of countries see a more prominent role for capital controls. We have taken the view that it is the existence of controls, not their absence, which must be justified. We want a system which would tend toward an international equilibrium consistent with market forces, rather than a "balance" achieved only by prolonged use of controls.

The effectiveness of controls has, in any event, been demonstrated to be limited in the face of powerful speculative forces.

Reserve Assets

The view is widely held that SDR's -- as appropriately modified and perhaps renamed -- might take on the role of unit of account, or numeraire, and in time become the main reserve asset in the new system. Consistent with this view, the diminishing trend in the official monetary role of gold would be continued, and currencies should have a much smaller role than in the recent past.

A number of difficult and complicated technical questions need to be resolved in this area concerning the methods of valuing SDR's relative to currencies, the remaining role for gold in the system, and the means of assuring a satisfactory total and composition of reserves. However, I am convinced that workable answers are available to these essentially technical problems.

I am frankly less sanguine about other aspects of the problem where the technical aspects are less formidable, but where there is a wide gulf in philosophy, differences in political perceptions, or large practical problems of implementation.

I am most seriously concerned about the various proposals for "linking" the creation of SDR's to development assistance -- an approach which many developing countries have presented as an essential element in monetary reform. Yet, this approach seems to us to threaten at the very start the chances for making the SDR the centerpiece of the reserve system by creating, at the least, suspicion that the monetary role would in practice be subordinated to the need for aid. need for reasonable quantities of international development assistance sustained over time seems to me plain. The question is how that aid should be provided -- whether in the long-accepted manner by explicit political decisions involving specific legislative consideration, or by incorporating aid within the process of international liquidity creation, with the implicit danger that neither objective is well served.

Most approaches to monetary reform implicitly or explicitly assume a large "consolidation" of existing official holdings of dollars or other foreign currencies in official reserves. Technically, such a consolidation appears readily feasible, by a combination of funding or by conversion of currencies into, say, SDR. However, as the discussions have proceded, it is apparent few countries wish to see their reserves reduced or made substantially less liquid, and many countries value highly their present freedom to hold, and handle flexibly, currencies. Consequently, the more philosophical attachment to the concept of sharply reduced currency holdings in the system as a whole is diluted by the more practical attachment to the retention of maximum flexibility by individual countries. The possibilities of achieving a solution to this dilemma will need to be explored through detailed investigation, with the objective of finding whether specific terms and conditions for consolidation can be found acceptable to debtors and creditors alike.

Finally, I should note there is widespread recognition that the structure of the International Monetary Fund should be modified, and that the relations between the Fund and other organizations with international economic responsibilities should be closer, more consistent, and better coordinated. But the C-20 has yet to give detailed consideration to specific possibilities.

The Interim System

The international economic environment, which forms a backdrop for monetary developments, has in recent months had to adjust to and absorb the impact of some serious disturbances. We have experienced rapid worldwide inflation. Widespread and severe shortages of agricultural commodities and energy have developed. We have seen renewed international political turmoil in the form of a war in the Middle East.

Yet, I can report these disturbances have not had a jarring impact on the interim international monetary arrangements introduced last March.

Faced with the large uncertainties arising not only from changes in the economic environment, but also from the necessary adjustments in exchange rates earlier in the year, the regime of floating exchange rates among the major industrial countries has been accompanied by fairly wide fluctuations in the value of particular currencies at particular times. At one point, during the Summer, the market became somewhat unsettled. But viewed in its entirety, the flexible new arrangements appear to have proved their worth during this transitional period. They have helped to insulate individual currencies, and economies, from the shocks and imbalances arising abroad during a difficult and uncertain period. Trade and investment have continued to flourish. The atmosphere of repeated and continuing crises has faded. Given the circumstances, could any other arrangement have done as well?

To be sure, during the late Spring and early Autumn, there were movements in certain exchange rates beyond what most observers felt necessary or desirable in light of basic economic conditions. These movements were not generalized -- they were concentrated in the value of a relatively few European currencies. Nor were they entirely unforeseeable or unreasonable, given that underlying payments payments disequilibria remained large. There was inevitable uncertainty following the very substantial exchange rate realignments which had taken place, and domestic political developments in the U.S. were receiving wide comment.

Naturally, these movements were the source of some concern. To the extent it could be helpful in maintaining an orderly market and in encouraging confidence, limited official intervention was undertaken. Since July, exchange rates have moved generally in the reverse direction, alleviating these concerns. The exchange rates between the dollar and the jointly floating European currencies are now rather close to the levels established after our February devaluation, and the dollar is stronger against several other currencies.

A critically important factor in explaining the restored confidence in the dollar and the more satisfactory performance of the exchange markets in recent months is the improvement in the underlying U.S. balance of payments position. Earlier this year, there was a good deal of uncertainty in everyone's mind as to when we could expect to see real progress in restoring the U.S. trade balance. Following the Smithsonian exchange rate changes, we had seen a continued marked deterioration in our trade figures -- with the trade balance moving from a deficit of $2.7 billion in 1971 to a deficit of $6.9 billion last year. Much of this was anticipated.

64

The deterioration of our basic competitive position was deep-seated, devaluation initially worsened the trade position, and cyclical developments were adverse. Nonetheless, it was unsettling, and a considerable lag in response could have been anticipated following the February realignment.

In the event, market improvement in our trading accounts has been evident throughout the year. Successive quarters have brought figures $3-$4 billion better at annual rates than the preceding quarter. Including a surprisingly strong showing in September, the trade balance was in surplus by over $3 billion at an annual rate in the third quarter -- the first such surplus since the first quarter of 1971. Even discounting the September surplus, the prospect is for continued improvement in the U.S. position. The exceptional strength of our agricultural trade -- with the balance rising by $7-$8 billion over a year ago -- accounted for the great bulk of the recovery in our trade position this year. This will not recur. As time passes, we must count more heavily on extending recent gains in the manufactured goods sector.

Like all the major industrial countries in varying degree, the United States faces a sharply rising import bill for energy products. Obviously, this will cut into gains in our trade balance directly, as well as place new pressures on the internal price structure. I cannot estimate with accuracy the full impact of this development, but it does plainly underscore the continuing challenge of dealing with our inflation and maintaining a strong competitive position.

If we can succeed in those tasks, then we can anticipate that the U.S. external position will also be bolstered in the period ahead by strong interest in long-term investment in the U.S., as well as by some reflows of funds which left this country during periods of speculation against the dollar. In the longer run, we should receive a considerable share of the investments of the oil-producing countries, themselves, because of the broad range of attractive investment opportunities available in this country.

Improvement in the U.S. balance of payments and a reasonably strong dollar are indispensable to effective functioning of a reformed international monetary system. But we should not mistake this welcome development, and calmer market conditions, for reform itself.

In the end, we seek -- and need -- a code of conduct or system of rules, broadly perceived to be in the common interest, to govern conduct when the actions of one nation impinge on another. It is difficult enough to maintain

67

harmonious international economic relations when nations know what is expected of them. Without such rules, the potential for conflict eventually will become unacceptably great.

I would hope that a year from now we will be able to come to the Congress with specific proposals for legislation to implement agreement on reform. I recognize that this is an ambitious target. Turning a general agreement into a detailed legal agreement can be a laborious and time-consuming process. But I also recognize that, at a certain point, a search for perfection in an imperfect world can be an illusion. Our objective must be to get the essential points right, and to move with all deliberate speed to pin down that agreement.

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FOR RELEASE UPON DELIVERY

STATEMENT OF THE HONORABLE GEORGE P. SHULTZ
THE SECRETARY OF THE TREASURY
BEFORE THE SUBCOMMITTEE ON INTERNATIONAL FINANCE
OF THE BANKING AND CURRENCY COMMITTEE OF THE
HOUSE OF REPRESENTATIVES ON REPLENISHMENT OF THE
INTERNATIONAL DEVELOPMENT ASSOCIATION AND
OF THE ASIAN DEVELOPMENT BANK
WEDNESDAY, NOVEMBER 14, 1973 AT 10:00 A.M.

Mr. Chairman and Members of the Subcommittee:

I am happy to be here this morning to support the President's requests for new funding authority for the International Development Association (IDA) and the Asian Development Bank (ADB). My statement will deal principally with the broad framework of international economic cooperation within which the President put these requests forward in his message of October 31. For further background, you have before you the Special Reports of the National Advisory Council on the IDA and the ADB proposals, respectively.

This hearing is the culmination of the important new process we are carrying out with the Subcommittee and the other relevant Committees of Congress to involve you and your concerns fully in the formulation of United States policy and participation in all of the international development lending institutions: The World Bank group, the Inter-American Development Bank, and the Asian Development Bank. I pledge to you that this effort will continue beyond this hearing, so that we may mutually benefit from a greater flow of information and an on-going, frank dialogue. Many of you were members of our delegation to the World Bank and Monetary Fund meeting in Nairobi in September and we discussed at length our participation in these institutions. Your counsel was invaluable. In a real sense the proposals to be discussed today are the result of this consultative process.

The advantages of a multilateral approach to development are well understood by this Committee. In the proposals before you today, financial contributions will be provided to these two banks first of all on the basis of a fair share from each of the developed country members -- shares that have been renegotiated to reflect equitably the present relative economic strengths of industrial nations.

Second, all assistance will be provided in the form of loans which will finance sound development projects in developing nations -- particularly in the poorest of those nations. The money will be spent not only for highways, dams, farming and industrial developments but for programs such as health, education and population programs that directly work with and for the people of poverty-stricken nations.

Third, because of their long experience, unmatched pool of technical expertise drawn from all countries, and freedom from political considerations, the International Development Association and the Asian Development Bank are in a strong position to influence developing countries to become both more productive and more self-reliant, by improving their overall economic programs and policies.

Finally, these institutions form a part of an international system of cooperation and agreed upon rules of economic behavior, which we are attempting to improve and strengthen.

Most of you will recall this as a principal theme sounded by President Nixon here in Washington at the 1972 meeting of the World Bank and Monetary Fund. He pointed out clearly that a new international economic order -- based on up-dated rules, international cooperation and a stronger institutional framework -- is a basic part of creating a secure structure of peace.

International monetary reform, international trade and investment, and improving the quantity and quality of international development assistance are all aspects of the same problem of constructing an endurable system of economic intercourse. Because they are inextricably linked, because we must negotiate in all these fields with the same countries and frequently with the same individuals, what the United States does or does not do in regard to sharing the international responsibility for assisting the developing nations will inevitably have a profound impact on what we are able to accomplish in the remaining fields. The stakes in monetary reform, trade and investment are simply too high for us to do less than is required in the area of development.

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I fully recognize that new questions -- good questions -- have arisen about the role the United States can and should play in foreign assistance. There is a feeling that the United States has been called on to do too much over too long a time, and a feeling that too many domestic needs are still unmet to permit providing our resources overseas. Pressures on our balance of payments and on the dollar have tended to reinforce these feelings.

In the end, these are questions of appropriate priorities. They have led to a searching review within the Congress and the Administration. I firmly believe that the legislation before you has been carefully analyzed in terms of consistency with our priorities -- domestic and foreign -- and represents the right policy for the United States in the period ahead. Let me explain the reasons for this conclusion.

The world economy and the U.S. role within it have undergone rapid change. We are no longer so large relative to the rest of the world. Others should pick up more of the burden in such fields as development assistance. Under the proposals before you they are doing so. Indeed, healthy international development lending institutions -- and they cannot be healthy without our participation -- are one of the best assurances we can have that others will bear an equitable portion of the common responsibility.

Internationally, after a long period of decline and erosion, our competitive position is now benefitting from major changes in exchange rates. Recent balance of payments figures are encouraging, and prospects are good for our external sector to become a strong plus factor generating more jobs and higher incomes in the domestic economy. Looking ahead -- and the money being requested today will not be spent for some years -- I believe we can handle the programs I am describing today without damage to the dollar, and indeed with the expectation that they will help to generate international business for us.

Our domestic economy has now been relieved of the burden of a long and costly war. Our fiscal situation is moving to better balance. We can carry out these programs with fiscal responsibility. Our support for the multilateral lending institutions of course involves a significant amount of money. But as a small fraction of our resources and our budget -- actually a smaller fraction than that of most other developed countries -- these programs have been fitted into our overall financial and budget planning in a manner that reflects, I believe, an appropriate balance among competing demands.

All of these circumstances help provide a solid foundation for the commitments we request, which in turn are an essential element in our overall foreign economic policy.

Our relations with developing countries are important to the United States economically and politically. The developing countries provided a $14.6 billion market in 1972 for U.S. goods and services. In fact, as a group, they purchase more from us than we do from them. Perhaps more important, they provide us with one-third of our raw materials imports, and that proportion will only grow in the future. All nations are facing today the problems of inflation. More raw materials and products from the developing countries will help abate that problem. It makes good sense for us to utilize proven vehicles, such as the international development lending institutions, for aiding the growth of nations that are at the same time such important sources and markets for us. Our benefits need not be at the expense of others' losses, for with growth all parties can be better off.

Beyond these economic benefits to the United States, the multilateral lending institutions -- as President Nixon noted in his message -- also play an important role in American foreign policy. There is a wide chasm between the wealth of the United States and other industrialized countries on the one hand, and the extremes of poverty in developing countries on the other. The developing countries must be given hope in their efforts to reduce the disparity and must be encouraged to seek to do so as part of outward-looking, more market-oriented economies, where a premium is placed on efficient use of funds.

These international development banks are well-equipped to offer this hope and this encouragement. Conversely, a renewed U.S. commitment to multilateral development can give needed assurance to the world that the United States is not turning inward, and that it is prepared to help tangibly -- that we will maintain a leading position in global affairs. Secretary Kissinger agrees fully with the importance of these institutions in the spectrum of our foreign relations and a representative from the Department of State will appear before your Committee at a later date to elaborate on this concern.

This, then, is the general background for today's specific proposals. In presenting them to you, I want to say we have taken special care to emphasize to other donors that we could not make -- and would not desire to make -- international commitments to these institutions without Congressional participation and assent. You will find explicit language in the respective reports of the Directors of IDA and the ADB that affirms the principal that no commitments arise until legislative approval is obtained.

At the same time, I also must underscore the fact that these proposals have been arrived at only after intensive discussions with other countries, in which we have elaborated and emphasized the concerns of Congress against the background of our earlier consultations.

70

In the end, the interests of the various donor countries have been carefully balanced. What they do is inevitably dependent on what we do. A unilateral effort to reduce the amounts or institute other major changes would inevitably pose difficult problems in negotiating a satisfactory arrangement, and greatly impede the continuity of the institutions' operations. If the United States should reject the proposal, the practical effect would, in my judgment, be the rapid unravelling of the effort we have made over the years to build these institutions, which have become so central to the international development assistance effort.

For all these reasons, the proposals have the strongest support of the President, evidenced by his personal message to the Congress. As I promised you at Nairobi, the Administration will press as hard as possible for their approval.

Let me turn now to the proposals themselves.

IDA

The International Development Association (IDA) was established in 1960 as the concessional lending arm of the World Bank. It makes long-term loans to countries with a per capita annual income of $375 or less. Twenty-five nations contribute funds for its operations, which are carried on in 70 countries located in all the major regions of the developing world. Contributions are mobilized for three-year replenishment periods, the latest of which, the Third Replenishment, runs through June 30, 1974.

Specifically, the IDA proposal before you calls for total contributions from all donors of $4.5 billion over three years, which would permit IDA to make credit commitments during the period FY 1975-77. The most salient feature of this Fourth Replenishment of IDA is the reduction in the U.S. share from 40 percent to 33-1/3 percent. This would result in a U.S. contribution to the total replenishment that is lower by $300 million than it would have been had our traditional share been maintained. Based on national income and other measures of financial capacity, a one-third share for the United States is entirely reasonable.

It is contemplated that countries will generally make payments under this replenishment in three equal payments beginning in FY 1975. However, options would be provided, with the practical effect of permitting us to commence our payments in FY 1976 (after our final payment in FY 1975 under the current Third replenishment) and to divide our payments over four years instead of three. Our present intention is to make use of these options. However, we would welcome the guidance of the Congress about this question, and we have drafted the proposed legislation so as to provide maximum flexibility.

On an annual basis, our contribution under the four-year payment option would be $375 million per year, compared to our present annual contribution level of $386 million. (Our original commitment to contribute annually $320 million has been increased by $66 million as a result of maintenance of value obligations resulting from devaluation.) Payments would be made in non-interest bearing letters of credit, to be drawn down over an extended period of years. Accordingly, we anticipate virtually no budgetary impact in the early years of our contribution, and the ultimate impact will be spread out over a number of years.

IDA's present resources will be fully committed by June 30, 1974. Its lending operations -- which heavily emphasize social and economic improvement for urban poor, for small businessmen and small farmers -- would terminate at that time. Consequently, time is an important factor. I therefore urge early Committee action on this item, which is the center-piece of international development efforts for the world's poorest countries.

Asian Development Bank

The Asian Development Bank, established in 1966, is a regional development bank modeled on the World Bank-IDA Group. Its membership includes the developing nations of Asia, together with the developed countries of Europe, Asia and North America. Like the World Bank, it makes hard loans on conventional terms from its Ordinary Capital window. Like IDA, it makes concessional loans from its Special Funds. It has developed in a few short years into a respected borrower in international financial markets, and an important provider of financial and technical assistance to the developing countries of the Asian region.

There are two Asian Development Bank proposals before you today. The first relates to the Bank's concessional lending operations through a new Asian Development Fund to which the United States would make available $150 million. However, recent international negotiations made clear that other nations will agree that $100 million of funds already authorized by the U.S. Congress and now awaiting appropriation can be used for this purpose. Consequently, our request for new authority for this purpose is limited to $50 million.

Although the United States was a founding member of the Asian Bank, we have never contributed to its concessional lending resources. Over a period of three years other nations have contributed about $250 million. Now, those funds are largely committed. Thus, the Asian Development Bank will run out of funds for concessional lending by the turn of the year.

71

The proposed Asian Development Fund will avoid a cessation of concessional lending operations, and sustain lending over a planned three year period.

The funding by all donors is proposed to amount to approximately $525 million. The suggested U.S. share of the new Fund of $150 million would thus amount to 29 percent. However, as I indicated earlier, other donors in a genuine spirit of cooperation and willingness to look forward in a constructive way, have indicated that the United States may credit toward its contribution to the new Fund $100 million that had been authorized for Asian Bank concessional lending in 1972 and that is now pending appropriation. The new replenishment of $525 million, therefore, would require only $50 million additional funds from the United States -- less than 10 percent of the total. It is that $50 million for which authorization is now being requested.

This proposal seems to me to meet and even exceed any reasonable test of burden-sharing. Other countries have already contributed over $250 million for concessional lending by the Asian Bank. With the $100 million already authorized and the additional $50 million now requested, on a cumulative basis, our overall share of Asian Bank Special Funds would be only about 20 percent.

Moreover, our $100 million portion is, by agreement with the other donors, tied to procurement of U.S. goods and services, ensuring direct benefits to U.S. suppliers and facilitating U.S. entry into key markets in Asia.

The second proposal relates to U.S. participation in a replenishment of the Bank's ordinary capital, for which I transmitted draft legislation to Congress on July 10 of this year. This would require a new authorization of $362 million over three years, largely in the form of guarantee capital without budget impact.

The proposal is important from two standpoints. First, it will enable the United States to retain a voting position and influence in the Bank commensurate with our financial and policy interest in the Bank and in the region. Second, the resources it will provide the Bank in support of its lending operations -- in this case, non-concessional or "hard" loans -- can and will be effectively used in areas of priority need.

I would emphasize that other member countries have already provided their share of a planned proportionate capital increase for the Bank. We have delayed our request, because we believed other contributions -- including the $100 million in concessional funds for the Asian Bank -- deserved immediate priority. As a consequence, the voting strength of our shares was reduced from 17 percent to 8 percent. This is inadequate if we wish to have an ongoing, effective voice in the Bank.

Our relative position can be restored at a small budgetary cost. Of three annual installments of approximately $121 million each, only $9.7 million a year would be cash. A further $14.5 million would be in letters of credit to be drawn down over time. The bulk, some $97 million a year, would be callable or guarantee capital. Contributions of callable capital are not expected to have any cash or budgetary impact, but they do provide a backstop guarantee for the Bank's borrowing in private capital markets.

Although much smaller than IDA, the ADB is an increasingly important institution on the Asian political-economic scene. While it is a vehicle for expressing continued U.S. interest and support for the region, the main responsibilities are properly carried by the Asians themselves. Japan has been by far the largest contributor, particularly to the soft funds. But neither the Japanese themselves, nor other Asians, want Japan to dominate the institution. Despite Japan's heavy contributions, I believe that is not the case today. But we and other members do want to maintain an appropriate balance. Today's legislative proposals are essential to maintaining an appropriate U.S. presence.

<u>Relations to Appropriations</u>

The authorization requests for these programs are a critical step in a complex process. Equally important will be the follow-through in terms of timely and adequate appropriations. The President has urged quick action on pending appropriations requests, noting that we are behind schedule in providing our contributions to all of the institutions. I would hope that, within the structure of the Congress, appropriate and innovative techniques might be worked out that would facilitate the handling of the multi-year funding programs that are essential to the orderly conduct of the business of the international development lending institutions. A solution to this problem must be, after the

72

authorizations themselves, the highest item on our legislative agenda relating to the international banks.

Working with the Congress, I believe we have in the past year increased the flow of information to, and interchange of ideas with the Congress at both member and staff levels. We benefitted greatly by contacts with you and with other members of the Congress in preparing for negotiations with other countries. We have made plain to others that we view U.S. participation in these institutions as a partnership of the Congress and the Administration, and we could not commit the United States before the Congress has had an opportunity to consider and act on the proposals. The policies will continue. My hope is that the Congress itself will not only support this legislation, but will provide assurances, at the earliest feasible date, that necessary appropriations will be forthcoming.

The most appropriate note for me to close on is President Nixon's summation in his October 31 message:

> "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."

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Attachment: Table - "Appropriations Requirements"

APPROPRIATIONS REQUIREMENTS

FOR IDA AND ADB REPLENISHMENT
(in millions of dollars)

	FY 1975	1976	1977	1978	1979
IDA IV	--	375	375	375	375
ADB					
Special Funds	50 1/	--	--	--	--
Ordinary Capital 2/	121	121	--	--	--

1/ May be deferred to FY 1976 depending on result of pending $100 million FY 1974 appropriation request.

2/ $121 million for first installment is included in pending FY 1974 request.

MEMO TO PIOs November 13, 1973

Secretary Shultz told a meeting of business writers today that rationing of gasoline should be used only as a last resort.

He suggested a number of ways of conserving at least 2.7 million barrels a day. Among these are turning down thermostats, tuning up cars every 6 months, using cold water detergents, reducing speed of automobiles, increasing the load factor in aircraft by reducing the number of flights, and using car pools and public transportation.

In referring to reduced limits, he suggested that one way was "arrest a few people", Mr. Shultz said. "If all those things happen, we will save the amount of energy we need to save to keep the economy going."

Referring to those who have contended that people will never change their patterns, Secretary Shultz said "well, I don't believe it...we'd better get cracking and do something about it. It doesn't have to be highly disruptive of the economy."

Mr. Shultz said these were short-term solutions and that we also had to think of the long-term problem. For example, he said the country has regulated natural gas prices too long and made it very unprofitable to explore for gas.

He also said that the U. S. possessed 40% of the world's coal and had tremendous oil shale deposits, all of which are needed in research for products and development. "Pour research into it," he said, "let's do it."

Joseph A. Loftus

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75

November 14, 1973

NOTE FOR TREASURY PIOS

Secretary Shultz was asked at today's Congressional hearing about the ending of the two-tier gold system.

The question was: Assuming we decide to sell gold, who would make the decision?

Secretary Shultz replied that the way the announcement was phrased was that we would terminate the two-tier agreement and return to the provisions of the IMF Articles of Agreement. Those provisions provide that governments can sell gold when the private market price is above the official price and governments can buy gold when the private market price is below the official price. Therefore, we are now free to sell gold but not to buy it.

Since no one thinks the private market price will return to a price below par value, this means, for all intents and purposes, that countries can sell gold but not buy it.

Shultz said this position is consistent with our long-term goal of demonetizing gold in the monetary system.

As for the decision-making process, he referred to an informal group comprised of the Secretary of State, Chairman of the Council of Economic Advisers, Chairman of the Council on International Economic Policy, Secretary of Treasury (acting as chairman) and the Chairman of the Federal Reserve Board, with Treasury and the Fed being "particularly close" in their consultations.

Shultz said the President was consulted before yesterday's step was taken. He said the action was something the U.S. wanted to do for some time, and the timing seemed to be propitious. As for any sales, "we prefer not to make any comment at this time." He also said the U.S. wished "to retain maximum flexibility on this issue."

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76

FOR IMMEDIATE RELEASE November 14, 1973

REYNOLDS INTERNATIONAL PLEADS GUILTY
TO ILLEGAL IMPORTATION OF PETALITE

The Treasury Department announced that Reynolds International, Inc., pleaded guilty in Federal District Court in New Orleans today to criminal charges that it had illegally imported petalite of Rhodesian origin in violation of the U.S. sanctions against dealing with Southern Rhodesia, and Customs laws.

The criminal indictment returned by the Grand Jury for the Eastern District of Louisiana on November 1, 1973, charged that Reynolds International, Inc., had imported 197 tons of Rhodesian petalite from South Africa in July 1973. The merchandise was falsely entered by the firm at New Orleans as South African feldspar. Its invoice value was $17,870.

The firm was fined $5,000 by the court. In addition, the 197 tons of petalite, which has been seized by Customs, will be forfeited. The value of ten tons previously consumed and not available for seizure will also be forfeited. Petalite is a lithium aluminum silicate used principally in the ceramic industry. A lesser use of petalite is extraction of the lithium content for use in metallurgy.

Reynolds International, Inc., is a Panamanian firm which is a wholly-owned subsidiary of Reynolds Metals, Inc. Both firms are headquartered at Richmond, Virginia.

The unlicensed importation was illegal under the Treasury Department's Rhodesian Sanctions Regulations. The Regulations were issued under the authority of the United Nations Participation Act (22 USC 287c) which was enacted by Congress in 1945. The Regulations were instituted to implement Executive Order 11419 of July 29, 1968, issued in connection with United Nations Resolution 253. The U.N. Resolution, enacted with U.S. support, called on member nations to impose economic sanctions against Southern Rhodesia.

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

FOR RELEASE 6:30 P.M. November 14, 1973

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for $1.8 billion of 52-week Treasury bills to be dated November 20, 1973, and to mature November 19, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

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

High	- 92.282	Equivalent annual rate	7.633%
Low	- 92.157	Equivalent annual rate	7.757%
Average	- 92.206	Equivalent annual rate	7.708% 1/

Tenders at the low price were allotted 23%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted
Boston	$ 15,800,000	$ 5,800,000
New York	2,575,885,000	1,422,065,000
Philadelphia	26,155,000	11,140,000
Cleveland	33,495,000	29,345,000
Richmond	3,745,000	3,245,000
Atlanta	5,195,000	3,195,000
Chicago	364,540,000	225,040,000
St. Louis	39,380,000	16,110,000
Minneapolis	23,185,000	11,185,000
Kansas City	13,865,000	7,255,000
Dallas	24,145,000	1,645,000
San Francisco	311,065,000	64,015,000
TOTALS	$3,436,455,000	$1,800,040,000 2/

1/ This is on a bank discount basis. The equivalent coupon issue yield is 8.30%.

2/ Includes $32,065,000 noncompetitive tenders accepted at the average price.

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

78

FOR RELEASE ON DELIVERY NOVEMBER 15, 1973

STATEMENT OF THE HONORABLE GEORGE P. SHULTZ
THE SECRETARY OF THE TREASURY
BEFORE THE SENATE FINANCE COMMITTEE
ON EXTENSION OF THE DEBT LIMIT
THURSDAY, NOVEMBER 15, 1973, AT 10:00 A.M.

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

I have a relatively brief statement, because I know that the Members of this Committee fully understand the need for final Congressional action on the debt limit before the temporary limit expires on November 30.

However, I do want to emphasize the urgency of the matter.

We now anticipate, and Tables I and II indicate, that the debt subject to limit will exceed the present temporary limit of $465 billion during the last week of November unless we take extraordinary measures to retire debt. Our cash balances may need to be reduced below a prudent level at a time when cash operations may be usually large and uncertain.

This would be contrary to the orderly and economical management of the Government's finances. It would serve no positive purpose.

Consequently, I urge final action before the last week in November, even though we will not be threatened with a total breakdown in our ability to finance before December 1.

As I am sure you are aware, the House Committee reduced our request for a new temporary ceiling of $480 billion through June 30 to a figure of $478 billion. The Committee proposal was reduced further on the House floor to a figure of $475.7 billion.

S-326

Let me say that I can sympathize with the sense of frustration that led to the action on the House floor. But acts of frustration do not lead to wise decisions.

We have projected a roughly balanced unified budget in fiscal 1974, and I will explain that in more detail further on. However, I am the first to emphasize that outcome of a balanced budget is by no means assured. I am aware, and you are aware, of the continuing pressures to increase Federal outlays even beyond the projected $270 billion figure, which is itself a massive $23-1/2 billion increase over the fiscal 1973 total.

I am keenly aware of the many urgent programs which must stand aside or be cut back in favor of even more urgent programs if we are to hold outlays to $270 billion.

But we cannot escape the fact that excessive Federal spending is one of the important roots of our inflationary problem. We cannot escape the fact that even this late in the session the Congress has been unable to implement procedures which would assure Congressional overview of both outlay and receipt totals to assure that they are consistent with the economic health of the country.

These are the reasons I can sympathize with the sense of frustration in the House. We in this Administration feel a similar sense of frustration with about 75 percent of the expenditures being uncontrollable. This allows us to work on only the remaining 25 percent and forces many tough decisions. However, I cannot agree that venting our mutual frustration in a lower debt ceiling is the answer.

We can, if we must, live with the House figures for several months. But as early as March -- even if our budget projections are fully met and no extraordinary debt transactions are necessary -- we would be operating under strong debt limit pressure. I cannot contemplate handling the finances of the Federal Government prudently under those pressures for the extended period from mid-March through mid-June, with little or no margin for contingencies and with minimum cash balances.

I must advise this Committee, therefore, that the limit provided by the House, in the event of any adverse contingencies, will bring us back to the Congress as early as February next year. In the best of circumstances, operating within the lower limit could be unnecessarily costly. At worst, it will directly impede substantive programs and make it impossible to handle the debt in an orderly way.

79

Not least, to avoid an unnecessary proliferation of debt limit hearings, I hope that this Committee will approve our original request of a $480 billion temporary debt limit through June 30, 1974.

I should note, too, that our authority to borrow from the Federal Reserve has expired and its future is still quite uncertain.

This is an added factor, making it more difficult to manage the debt and cash position in the most economical fashion. It emphasizes the need to carry somewhat extra cash balances, for we have no alternative means of raising cash on a day-to-day basis should our estimates be wrong, or if an emergency arises.

Now let me explain in more detail the assumptions upon which we based our $480 billion request. We have projected a roughly balanced unified budget in fiscal 1974. (Tables III and IV describe the changes in receipts and outlays since our January and June estimates.)

At this point, seven months before the end of the fiscal year, any expenditures and income forecasts must imply a range of possibilities about the projection.

Our estimate of both revenue and expenditure at $270 billion fall in the low range of probabilities. There is a real risk that revenues may fall shy of $270 billion and expenditures may exceed that figure. Also, we must recognize the possibility that of the $2.2 billion requested as a supplemental appropriation, arising from the Mid-East war, as much as $600 million could be spent before June 30.

In spite of those factors, we believe that by making a firm resolve, and by hard work and cooperation between the Executive and the Congress, it is possible to bring in a balanced budget. However, the outcome is by no means assured.

I am particularly concerned that, without the most vigilant effort, expenditures could exceed our projection. Already, as the Director of the Office of Management and Budget will explain in greater detail (and as shown on Table V), 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 there are strong pressures 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 VI 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, as shown in Table II, making the $480 billion request appropriate.

Such a debt limit will, in fact, provide a tight 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 VIII, 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 in 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, although I understand that action on the HEW bill is to be soon forthcoming. 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. Although such contingencies seldom arise, the recent and welcome strength of the dollar in international currency markets indicates the potential need for a margin to take care of these contingencies. It has already caused us to borrow in our domestic money markets some $1.2 billion more than we had anticipated as recently as 3 weeks ago. In looking many months ahead, we do need a reasonable margin for operating flexibility for handling such unexpected needs -- 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 want also to draw the Committee's attention to the problem of assuring a fair rate of return on U.S. Savings Bonds.

This program is a cornerstone of our debt management policy, and Savings Bonds represent nearly one-fourth of the total public debt in the hands of the general public.

In order to maintain the strength of the program, we must be fair to the tens of millions of payroll savers and other buyers of Savings Bonds.

As a result of the interest rate pressures in the economy and the changes in ceiling rates on thrift and bank deposits in July, Savings Bonds rates are now out of line with other rates. As a result, Savings Bonds sales have declined and redemptions have risen.

There is an ambiguity in the statutory language controlling the maximum rate on Savings Bonds. One interpretation suggests that we have no authority to raise Savings Bonds rates above 5-1/2 percent. In the light of that interpretation, we have not felt able to raise the rate without explicit Congressional support.

The Ways and Means Committee has now concluded and clearly stated that, in fact, we can raise the rate to 6 percent under present law.

While I would much prefer complete removal of the ceiling, so that Savings Bonds rates in the future could be altered, as necessary, more promptly, if this Committee and the Senate concur in the House interpretation, the difficulty would be solved for the time being.

In conclusion, let me urge upon you, first, an increase in the temporary debt limit to $480 billion through June 30, 1974 and, second, removal of the Savings Bonds rate ceiling. These are measures clearly needed for the effective management of the public finance.

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Attachments: Tables I through VIII

TABLE I

81

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
1973		ACTUAL	
June 30	$12.6	$459.1	
July 31	7.2	460.0	
Aug. 31	3.1	462.8	
Sept. 30	8.3	462.4	
Oct. 31	5.7	463.4	
Nov. 12	2.9	459.8	
		ESTIMATED	
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

November 13, 1973

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
1973			**ACTUAL**	
June	30	$12.6	$459.1	
July	31	7.2	460.0	
Aug.	31	3.1	462.8	
Sept.	30	8.3	462.4	
Oct.	31	5.7	463.4	
Nov.	12	2.9	459.8	
			ESTIMATED	
Nov.	30	6.0	467	
Dec.	11	6.0	467	
	31	6.0	467	
1974				
Jan.	10	6.0	469	$472
	31	6.0	467	470
Feb.	15	6.0	466	469
	28	6.0	471	474
Mar.	8	6.0	472	475
	31	6.0	473	476
Apr.	10	6.0	475	478
	30	6.0	468	471
May	15	6.0	469	472
	31	6.0	475	478
June	11	6.0	477	480
	30	6.0	468	471

Office of the Fiscal Assistant Secretary — November 13, 1973

82

TABLE III

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
dividual income taxes	111.6	+3.7	115.3	+0.7	116.0	+1.0	2/ 117.0
rporation income tax	37.0	+3.0	40.0	+1.5	41.5	+2.5	44.0
ployment taxes & contributions.	67.9	--	67.9	+0.5	68.4	-0.5 3/	67.9
employment insurance	6.3	-0.1	6.2	--	6.2	--	6.2
ntributions for other insurance and retirement	4.0	--	4.0	--	4.0	--	4.0
cise taxes	16.8	--	16.8	--	16.8	--	16.8
tate and gift taxes	5.0	+0.4	5.4	--	5.4	+0.4	5.8
stoms duties	3.3	+0.2	3.5	--	3.5	--	3.5
scellaneous receipts	4.1	-0.2	3.9	+0.3 1/	4.2	+0.6	4.8
tal budget receipts	256.0	+7.0	263.0	+3.0	266.0	+4.0	270.0

Underlying Income Assumptions - Calendar Year 1973

	January 1973 budget	May 1 1973 estimate	Mid-session review	Current estimate
P	1267	1283	1283	1288 4/
rsonal income	1018	1030	1030	1033 4/
rporate profits before tax ..	108	116	116	129 4/

fice of the Secretary of the Treasury
Office of Tax Analysis

October 12, 1973

te: Figures are rounded and may not necessarily add to totals.

Includes +$0.2 billion for anticipated legislation required to write off liability carried on outstanding silver certificates.
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).
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.
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.

TABLE IV

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	Curre esti
Receipts	256.0	+7.0	263.0	+3.0	266.0	+4.0	270.
Outlays	268.7	--	268.7	*	268.7	+1.3	270.
Deficit (-) .	-12.7	+7.0	-5.7	+3.0	-2.7	+2.7	-

Office of the Secretary of the Treasury
Office of Tax Analysis

October 15, 197

Note: Figures are rounded and may not necessarily add to totals.

*Less than $50 millon.

TABLE V

		(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	
School lunch and child nutrition amendments	0.2	
Agriculture-Environmental, etc., appropriations (excluding food stamp add-on above)	0.2	
Other completed actions	0.4	
Subtotal, completed congressional actions		2.9
Other changes:		
Interest paid on the debt	1.5	
Interest received and other undistribted intragovernmental transactions	-0.7	
Farm price supports	-1.2	
Medicaid cost increases	0.6	
Military aid to Israel and Cambodia	0.6	
Veterans readjustment benefits	0.4	
Federal employee retirement funds	0.2	
Federal Housing Administration fund	0.2	
Outer Continental Shelf rents and royalties (offset against outlays)	-2.3	
Financial asset sales	-0.9	
Other changes (net)	-0.1	
Subtotal, other changes		-1.6
Current estimate		270.0

TABLE VI

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	200.7	0.9
Trust funds	67.1	81.5	90.1	90.9	0.8
Intragovernmental transactions	-13.2	-21.3	-21.1	-21.6	-.5
Total	231.9	246.5	268.7	270.0	1.3
Surplus or deficit (-)					
Federal funds	-29.1	-25.0	-18.8	-15.0	3.7
Trust funds	5.9	10.7	16.1	15.0	-1.0
Total	-23.2	-14.3	- 2.7	*	2.7

*Less than $50 million.

Note: Detail may not add to totals because of rounding.

November 15, 1973

TABLE VII

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	1974 Change
Federal funds:					
Transactions with the public	-16.2	-3.9	1.9	5.9	4.0
Transactions with trust funds	-12.9	-21.1	-20.7	-20.9	-.2
Total	-29.1	-25.0	-18.8	-15.0	3.7
Trust funds:					
Transactions with the public	-7.1	-10.4	-4.7	-5.9	-1.2
Transactions with Federal funds	12.9	21.1	20.7	20.9	.2
Total	5.9	10.7	16.1	15.0	-1.0
Budget total:					
Federal funds	-29.1	-25.0	-18.8	-15.0	3.7
Trust funds	5.9	10.7	16.1	15.0	-1.0
Total	-23.2	-14.3	- 2.7	*	2.7

*Less than $50 million.

Note: Detail may not add to totals because of rounding.

58

November 15, 1973

TABLE VIII

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

Department of the TREASURY
NEWS
OFFICE OF REVENUE SHARING
WASHINGTON, D.C. 20220
TELEPHONE 634-5191

85

FOR INFORMATION CALL (202) 634-5248

FOR RELEASE FRIDAY, NOVEMBER 16, 1973, A.M.s

OFFICE OF REVENUE SHARING
ISSUES SECOND SPECIAL PAYMENT
FOR FISCAL YEAR '74

A special payment of $28,979,347 in general revenue sharing funds is being made today by the Treasury Department's Office of Revenue Sharing to 3,237 recipient governments.

This second special payment of funds allocated for the period July 1 - September 30, 1973, brings to $9.668 billion the amount that has been returned to state and local governments since the first payment was made, in December of 1972.

The money is going to governments whose first quarter payments have been delayed since October 5th, pending receipt by the Office of Revenue Sharing of one or more of three reports that were required to be filed before mid-September.

Three simple, one-page reports are involved:

...a report on Planned Uses of funds distributed for the first six months of calendar year 1973, due June 20, 1973,

...a report on Actual Uses of all funds distributed through June 30, 1973, due September 1, 1973, and

...a report on Planned Uses of funds distributed for fiscal year 1974, due September 14, 1973.

The reports are required by Section 121 of the State and Local Fiscal Assistance Act of 1972. Before being returned to the Office of Revenue Sharing, the law requires that each local and state government publish its reports in a local newspaper of general circulation.

"The intent of Congress when it put the publication requirement in the law was to provide citizens with information about general revenue sharing as it affects their own communities. This has encouraged and will continue to encourage public participation in decision-making regarding the uses of the funds by state and local governments ," according to Graham W. Watt, Director of the Office of Revenue Sharing.

86

"Funds for all of more than 38,000 general purpose units of government are held in the Treasury Department's Revenue Sharing Trust Fund until the reporting requirements relating to planned and actual uses of funds are met and the money can be paid out," Watt explained today.

"Governments that file the reports within the next month will receive their first quarter payments together with their second quarter payment which will be made at the end of the first week in January," he said.

Watt read from letters of explanation received in recent weeks from jurisdictions that filed the reports late. "You are completely right. I did not mark my calendar good enough and put the report away and found it after receiving your message," one town clerk wrote the Office of Revenue Sharing. Another town explained its delay as follows: "The report was mislaid somewhere therefore the reason for not sending it in. If you will send us a duplicate to be made out will assure you will have prompt attention."

One community wrote that its form must have been lost in the mail. "Just in case the enclosed report was not received at your office, I am herewith enclosing another copy. Hoping this is all that is needed, we are Sincerely yours, (signed by the town clerk)".

Some jurisdictions -- large and small -- decided to wait to file their reports until more complete information regarding the uses of the funds could be included.

About $9.2 million remains to be distributed to 2,934 governments whose reports have not been filed.

The State and Local Fiscal Assistance Act of 1972 authorizes the distribution of $30.2 billion through calendar year 1976.

- 30 -

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

81

FOR RELEASE UPON DELIVERY

STATEMENT OF THE HONORABLE GEORGE P. SHULTZ
THE SECRETARY OF THE TREASURY
BEFORE THE SENATE FOREIGN RELATIONS COMMITTEE
ON REPLENISHMENT OF THE
INTERNATIONAL DEVELOPMENT ASSOCIATION AND
OF THE ASIAN DEVELOPMENT BANK
MONDAY, NOVEMBER 19, 1973, AT 10:00 A.M.

Mr. Chairman and Members of the Committee:

I am happy to be here this morning to support the President's requests for new funding authority for the International Development Association (IDA) and the Asian Development Bank (ADB). My statement will deal principally with the broad framework of international economic cooperation within which the President put these requests forward in his message on October 31. For further background, you have before you the Special Reports of the National Advisory Council on the IDA and the ADB proposals, respectively.

This hearing is the culmination of a major effort we are carrying out not only with this Committee but with other relevant Committees to keep the Congress fully informed and involved in the formulation of United States policy and participation in all of the international development lending institutions: the World Bank Group, the Inter-American Development Bank and the Asian Development Bank. I pledge to you that this effort will continue beyond this hearing, so that we may mutually benefit from a greater flow of information and an on-going, frank dialogue. In a real sense the proposals to be discussed today have benefitted from this consultative process.

The advantages of a multilateral approach to development are well understood by this Committee. In the proposals before you today, financial contributions will be provided to these two banks first of all on the basis of a fair share from each of the developed country members -- shares that have been renegotiated to reflect equitably the present

88

relative economic strengths of industrial nations.

Second, all assistance will be provided in the form of loans which will finance sound development projects in developing nations -- particularly in the poorest of those nations. The money will be spent not only for highways, dams, farming and industrial developments but for programs such as health, education and population programs that directly work with and for the people of poverty-stricken nations.

Third, because of their long experience, unmatched pool of technical expertise drawn from all countries, and freedom from political considerations, the International Development Association and the Asian Development Bank are in a strong position to influence developing countries to become both more productive and more self-reliant, by improving their overall economic programs and policies.

Finally, these institutions form a part of an international system of cooperation and agreed upon rules of economic behavior, which we are attempting to improve and strengthen.

Most of you will recall this as a principal theme sounded by President Nixon here in Washington at the 1972 meeting of the World Bank and Monetary Fund. He pointed out clearly that a new international economic order -- based on up-dated rules, international cooperation and a stronger institutional framework -- is a basic part of creating a secure structure of peace.

International monetary reform, international trade and investment, and improving the quantity and quality of international development assistance are all aspects of the same problem of constructing an endurable system of economic intercourse. Because they are inextricably linked, because we must negotiate in all these fields with the same countries and frequently with the same individuals, what the United States does or does not do in regard to sharing the international responsibility for assisting the developing nations will inevitably have a profound impact on what we are able to accomplish in the remaining fields. The stakes in monetary reform, trade and investment are simply too high for us to do less than is required in the area of development.

89

I fully recognize that new questions -- good questions -- have arisen about the role the United States can and should play in foreign assistance. There is a feeling that the United States has been called on to do too much over too long a time, and a feeling that too many domestic needs are still unmet to permit providing our resources overseas. Pressures on our balance of payments and on the dollar have tended to reinforce these feelings.

In the end, these are questions of appropriate priorities. They have led to a searching review within the Congress and the Administration. I firmly believe that the legislation before you has been carefully analyzed in terms of consistency with our priorities -- domestic and foreign -- and represents the right policy for the United States in the period ahead. Let me explain the reasons for this conclusion.

The world economy and the U.S. role within it have undergone rapid change. We are no longer so large relative to the rest of the world. Others should pick up more of the burden in such fields as development assistance. Under the proposals before you they are doing so. Indeed, healthy international development lending institutions -- and they cannot be healthy without our participation -- are one of the best assurances we can have that others will bear an equitable portion of the common responsibility.

Internationally, after a long period of decline and erosion, our competitive position is now benefitting from major changes in exchange rates. Recent balance of payments figures are encouraging, and prospects are good for our external sector to become a strong plus factor generating more jobs and higher incomes in the domestic economy. Looking ahead -- and the money being requested today will not be spent for some years -- I believe we can handle the programs I am describing today without damage to the dollar, and indeed with the expectation that they will help to generate international business for us.

Our domestic economy has now been relieved of the burden of a long and costly war. Our fiscal situation is moving to better balance. We can carry out these programs with fiscal responsibility. Our support for the multilateral lending institutions of course involves a significant amount of money. But as a small fraction of our resources and our budget -- actually a smaller fraction than that of most other developed countries -- these programs have been fitted into our overall financial and budget planning in a manner that reflects, I believe, an appropriate balance among competing demands.

90

All of these circumstances help provide a solid foundation for the commitments we request, which in turn are an essential element in our overall foreign economic policy.

Our relations with developing countries are important to the United States economically and politically. The developing countries provided a $14.6 billion market in 1972 for U.S. goods and services. In fact, as a group, they purchase more from us than we do from them. Perhaps more important, they provide us with one-third of our raw materials imports, and that proportion will only grow in the future. All nations are facing today the problems of inflation. More raw materials and products from the developing countries will help abate that problem. It makes good sense for us to utilize proven vehicles, such as the international development lending institutions, for aiding the growth of nations that are at the same time such important sources and markets for us. Our benefits need not be at the expense of others' losses, for with growth all parties can be better off.

Beyond these economic benefits to the United States, the multilateral lending institutions -- as President Nixon noted in his message -- also play an important role in American foreign policy. There is a wide chasm between the wealth of the United States and other industrialized countries on the one hand, and the extremes of poverty in developing countries on the other. The developing countries must be given hope in their efforts to reduce the disparity and must be encouraged to seek to do so as part of outward-looking, more market-oriented economies, where a premium is placed on efficient use of funds.

These international development banks are well-equipped to offer this hope and this encouragement. Conversely, a renewed U.S. commitment to multilateral development can give needed assurance to the world that the United States is not turning inward, and that it is prepared to help tangibly -- that we will maintain a leading position in global affairs. Secretary Kissinger agrees fully with the importance of these institutions in the spectrum of our foreign relations and a representative from the Department of State will appear before your Committee at a later date to elaborate on this concern.

This, then, is the general background for today's specific proposals. In presenting them to you, I want to say we have taken special care to emphasize to other donors that we could not make -- and would not desire to make -- international commitments to these institutions without Congressional participation and assent. You will find explicit language in the respective reports of the Directors of IDA and the ADB that affirms the principal that no commitments arise until legislative approval is obtained.

At the same time, I also must underscore the fact that these proposals have been arrived at only after intensive discussions with other countries, in which we have elaborated and emphasized the concerns of Congress against the background of our earlier consultations.

91

In the end, the interests of the various donor countries have been carefully balanced. What they do is inevitably dependent on what we do. A unilateral effort to reduce the amounts or institute other major changes would inevitably pose difficult problems in negotiating a satisfactory arrangement, and greatly impede the continuity of the institutions' operations. If the United States should reject the proposal, the practical effect would, in my judgment, be the rapid unravelling of the effort we have made over the years to build these institutions, which have become so central to the international development assistance effort.

For all these reasons, the proposals have the strongest support of the President, evidenced by his personal message to the Congress. As I promised you at Nairobi, the Administration will press as hard as possible for their approval.

Let me turn now to the proposals themselves.

IDA

The International Development Association (IDA) was established in 1960 as the concessional lending arm of the World Bank. It makes long-term loans to countries with a per capita annual income of $375 or less. Twenty-five nations contribute funds for its operations, which are carried on in 70 countries located in all the major regions of the developing world. Contributions are mobilized for three-year replenishment periods, the latest of which, the Third Replenishment, runs through June 30, 1974.

Specifically, the IDA proposal before you calls for total contributions from all donors of $4.5 billion over three years, which would permit IDA to make credit commitments during the period FY 1975-77. The most salient feature of this Fourth Replenishment of IDA is the reduction in the U.S. share from 40 percent to 33-1/3 percent. This would result in a U.S. contribution to the total replenishment that is lower by $300 million than it would have been had our traditional share been maintained. Based on national income and other measures of financial capacity, a one-third share for the United States is entirely reasonable.

It is contemplated that countries will generally make payments under this replenishment in three equal payments beginning in FY 1975. However, options would be provided, with the practical effect of permitting us to commence our payments in FY 1976 (after our final payment in FY 1975 under the current Third replenishment) and to divide our payments over four years instead of three. Our present intention is to make use of these options. However, we would welcome the guidance of the Congress about this question, and we have drafted the proposed legislation so as to provide maximum flexibility.

On an annual basis, our contribution under the four-year payment option would be $375 million per year, compared to our present annual contribution level of $386 million. (Our

12

original commitment to contribute annually $320 million has been increased by $66 million as a result of maintenance of value obligations resulting from devaluation.)

Payments would be made in non-interest bearing letters of credit, to be drawn down over an extended period of years. Accordingly, we anticipate virtually no budgetary impact in the early years of our contribution, and the ultimate impact will be spread out over a number of years.

IDA's present resources will be fully committed by June 30, 1974. Its lending operations -- which heavily emphasize social and economic improvement for urban poor, for small businessmen and small farmers -- would terminate at that time. Consequently, time is an important factor. I therefore urge early Committee action on this item, which is the center-piece of international development efforts for the world's poorest countries.

Asian Development Bank

The Asian Development Bank, established in 1966, is a regional development bank modeled on the World Bank-IDA Group. Its membership includes the developing nations of Asia, together with the developed countries of Europe, Asia and North America. Like the World Bank, it makes hard loans on conventional terms from its Ordinary Capital window. Like IDA, it makes concessional loans from its Special Funds. It has developed in a few short years into a respected borrower in international financial markets, and an important provider of financial and technical assistance to the developing countries of the Asian region.

There are two Asian Development Bank proposals before you today. The first relates to the Bank's concessional lending operations through a new Asian Development Fund to which the United States would make available $150 million. However, recent international negotiations made clear that other nations will agree that $100 million of funds already authorized by the U.S. Congress and now awaiting appropriation can be used for this purpose. Consequently, our request for new authority for this purpose is limited to $50 million.

Although the United States was a founding member of the Asian Bank, we have never contributed to its concessional lending resources. Over a period of three years other nations have contributed about $250 million. Now, those funds are largely committed. Thus, the Asian Development Bank will run out of funds for concessional lending by the turn of the year.

93

The proposed Asian Development Fund will avoid a cessation of concessional lending operations, and sustain lending over a planned three year period.

The funding by all donors is proposed to amount to approximately $525 million. The suggested U.S. share of the new Fund of $150 million would thus amount to 29 percent. However, as I indicated earlier, other donors in a genuine spirit of cooperation and willingness to look forward in a constructive way, have indicated that the United States may credit toward its contribution to the new Fund $100 million that had been authorized for Asian Bank concessional lending in 1972 and that is now pending appropriation. The new replenishment of $525 million, therefore, would require only $50 million additional funds from the United States -- less than 10 percent of the total. It is that $50 million for which authorization is now being requested.

This proposal seems to me to meet and even exceed any reasonable test of burden-sharing. Other countries have already contributed over $250 million for concessional lending by the Asian Bank. With the $100 million already authorized and the additional $50 million now requested, on a cumulative basis, our overall share of Asian Bank Special Funds would be only about 20 percent.

Moreover, our $100 million portion is, by agreement with the other donors, tied to procurement of U.S. goods and services, ensuring direct benefits to U.S. suppliers and facilitating U.S. entry into key markets in Asia.

The second proposal relates to U.S. participation in a replenishment of the Bank's ordinary capital, for which I transmitted draft legislation to Congress on July 10 of this year. This would require a new authorization of $362 million over three years, largely in the form of guarantee capital without budget impact.

The proposal is important from two standpoints. First, it will enable the United States to retain a voting position and influence in the Bank commensurate with our financial and policy interest in the Bank and in the region. Second, the resources it will provide the Bank in support of its lending operations -- in this case, non-concessional or "hard" loans -- can and will be effectively used in areas of priority need.

94

I would emphasize that other member countries have already provided their share of a planned proportionate capital increase for the Bank. We have delayed our request, because we believed other contributions -- including the $100 million in concessional funds for the Asian Bank -- deserved immediate priority. As a consequence, the voting strength of our shares was reduced from 17 percent to 8 percent. This is inadequate if we wish to have an ongoing, effective voice in the Bank.

Our relative position can be restored at a small budgetary cost. Of three annual installments of approximately $121 million each, only $9.7 million a year would be cash. A further $14.5 million would be in letters of credit to be drawn down over time. The bulk, some $97 million a year, would be callable or guarantee capital. Contributions of callable capital are not expected to have any cash or budgetary impact, but they do provide a backstop guarantee for the Bank's borrowing in private capital markets.

Although much smaller than IDA, the ADB is an increasingly important institution on the Asian political-economic scene. While it is a vehicle for expressing continued U.S. interest and support for the region, the main responsibilities are properly carried by the Asians themselves. Japan has been by far the largest contributor, particularly to the soft funds. But neither the Japanese themselves, nor other Asians, want Japan to dominate the institution. Despite Japan's heavy contributions, I believe that is not the case today. But we and other members do want to maintain an appropriate balance. Today's legislative proposals are essential to maintaining an appropriate U.S. presence.

Relations to Appropriations

The authorization requests for these programs are a critical step in a complex process. Equally important will be the follow-through in terms of timely and adequate appropriations. The President has urged quick action on pending appropriations requests, noting that we are behind schedule in providing our contributions to all of the institutions. I would hope that, within the structure of the Congress, appropriate and innovative techniques might be worked out that would facilitate the handling of the multi-year funding programs that are essential to the orderly conduct of the business of the international development lending institutions. A solution to this problem must be, after the

95

authorizations themselves, the highest item on our legislative agenda relating to the international banks.

Working with the Congress, I believe we have in the past year increased the flow of information to, and interchange of ideas with the Congress at both member and staff levels. We benefitted greatly by contacts with you and with other members of the Congress in preparing for negotiations with other countries. We have made plain to others that we view U.S. participation in these institutions as a partnership of the Congress and the Administration, and we could not commit the United States before the Congress has had an opportunity to consider and act on the proposals. The policies will continue. My hope is that the Congress itself will not only support this legislation, but will provide assurances, at the earliest feasible date, that necessary appropriations will be forthcoming.

The most appropriate note for me to close on is President Nixon's summation in his October 31 message:

> "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."

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Attachment: Table - "Appropriations Requirements"

APPROPRIATIONS REQUIREMENTS

FOR IDA AND ADB REPLENISHMENT
(in millions of dollars)

	FY 1975	1976	1977	1978	1979
IDA IV	--	375	375	375	375
ADB					
Special Funds	50 1/	--	--	--	--
Ordinary Capital 2/	121	121	--	--	--

1/ May be deferred to FY 1976 depending on result of pending $100 million FY 1974 appropriation request.

2/ $121 million for first installment is included in pending FY 1974 request.

97

THE SECRETARY OF THE TREASURY
WASHINGTON

November 15, 1973

To the Members of the Ways and Means Committee:

I wish to convey to your Committee our grave concern over the suggestion that you might put aside consideration of the subjects contained in Title 7 of the pension bill.

More than half of our nation's workers have no private pension coverage. However, through their taxes, they must help make up the $4 billion annual revenue loss which arises from the tax benefits accorded to those covered by qualified plans.

The first six titles of the pension bill relate to improving and more fairly distributing the pension benefits of those persons who are already covered by private pensions. That is very important, we agree.

It is equally important, however, that we make it possible for the majority of our work force to secure for themselves some measure of retirement security. Title 7 relates primarily to that goal. It extends tax benefits to amounts set aside by uncovered individuals, up to a maximum of $1, 500 a year. The $1, 500 maximum is not large in comparison with the amounts which may presently be set aside under corporate plans, but it is an important beginning.

In addition, Title 7 contains proposals which would provide more realistic limitations for those self-employed persons who are willing to set up plans for their employees. The self-employed limitations are presently so out of line with corporate limitations that they provide little or no incentive to set up plans, so that many employees of such persons are left without plan coverage. Title 7 also deals with an important technical problem raised by pending litigation, loss of which could lead to a one-year revenue loss of as much as $8 billion. I am sure you will agree that such a loss is unacceptable.

We have major reservations about the acceptability of pension legislation which fails to deal with these issues, as it would fail to respond to the legitimate needs of more than half of our workers.

I cannot urge too strongly that your Committee do everything within its power to deal comprehensively with the issues raised by the pension bill. Legislation which extends further benefits to those who already are covered should be accompanied by legislation which deals responsibly with the problems of those who are not covered at all.

Sincerely yours,

George P. Shultz

George P. Shultz

98

U. S. TREASURY DEPARTMENT

SECRETARY GEORGE SHULTZ: PRESS CONFERENCE

New Senate Office Building

Washington, D. C.

Thursday, November 15, 1973

99

Q: Mr. Secretary, the Dow Jones has dropped precipitously in the last few days. Yesterday it was off twenty-one points. Why do you think this has happened?

SECRETARY OF THE TREASURY GEORGE SHULTZ: Well, I think there's uncertainty about the impact of the Arab boycott on the economy. People have not been able to appraise it. It's something that happened suddenly. And that uncertainty probably has unsettled people.

Q: Do you think it stems also from the fact there appears to be a debate within the administration over rationing?

SECRETARY SHULTZ: No, I don't think so. I think the first and most important thing to do is to think through carefully what the impact is likely to be and then identify how -- and the President has identified already some major things -- identify how we can, in effect, take the brunt of this boycott in ways that don't impair the strong operation of our economy...

Q: But what about...

SECRETARY SHULTZ: ...and let people see that that is possible, assuming that it is possible, and we are studying that carefully. But I think that that's a reasonable possibility. When people see that that's so, then there'll be some reassurance and things will come back.

Q: What about people with smaller incomes? Won't they be hit hard if there is no rationing? In other words, if the rich man has no rationing, he can buy all the gas he wants and go where he wants to, but the little guy can't afford it.

160

SECRETARY SHULTZ: Well, the question of how to handle the distribution of the shortage is a central one. And I think that on the whole, the allocation of our resources among uses by the price system is the most effective method of doing it.

Now, if something like a tax is used -- and the President has made no decision on this at all as yet -- but if a tax is used, it would raise a lot of revenue. That is, if you had enough of a tax to make a real impact on the price and, therefore, ration that way, it would raise a lot of revenue, and so you would have the necessity to put some of that revenue back. You wouldn't want to take that much revenue out of the economy. And that, of course, is one way in which you would cure the regressivity that's implied by your question.

Q: When do you think the President may reach a decision on what course to take?

SECRETARY SHULTZ: I wouldn't want to specify any time...

Q: Are we near?

SECRETARY SHULTZ: ...This is a matter of great importance and urgency, and so I would expect the President would be getting to it promptly...

Q: But you are recommending against rationing?

SECRETARY SHULTZ: ...The President has already put out some very important long-term things that need to be done and taken action, and also in his speech last week has suggested some of the immediate things that need to be done so that the boycott does not result in major disruption of the economy.

Q: And you are recommending against rationing?

SECRETARY SHULTZ: I think that rationing, end use (?) rationing, is an administrative nightmare and it tends to lead to black markets, and it's very difficult to do. So I think it should be something we regard as a last resort, not as something you immediately go to.

Q: But if you raise taxes or you increase prices, doesn't that ultimately hit the little man? He won't be able to afford to drive his car.

SECRETARY SHULTZ: Well, you asked that question before, and I tried to answer it before.

Q: I didn't follow your answer. You said this would get rid of some of the regressivity. How would it?

101

SECRETARY SHULTZ: Because if you, for example, have an increase in tax on gas and a decrease in tax on personal income, with the decrease skewed for the lower income groups, you tend to offset the one with the other. I don't say that is what the President is going to do, but I just say that is a possibility. There are a great many other possibilities for how to handle that problem.

Q: If you have that refund, though, that's a once-a-year occurrence, whereas buying gas is a once-a-week occurrence. Won't an increase [in] taxes on gasoline hurt the little man...?

SECRETARY SHULTZ: No...

Q: ...How does the little man pay a dollar a gallon?

SECRETARY SHULTZ: ...it won't hurt the little man any more than anybody else. If the net result -- let's just make the assumption the net result of the changes that were made leaves the so-called little man exactly in the same place as he was in terms of his income...

Q: That's a big if, Mr. Secretary.

SECRETARY SHULTZ: ...Right? Well, suppose you say that that is possible, and I assure you, technically, it is possible. So suppose you say that's possible, then what you've done is you've rearranged the relative prices of different things that he might buy, and you've made, let's say, gasoline more expensive. And that's the whole idea, not only for him, but for everybody, so that you don't find yourself on the highway driving at fifty miles an hour and every little man in the country going by you. You've got to get people to recognize that there is a problem here and they can do something about it themselves, and prices are one good way of achieving that...

Q. How do you calculate...

[Confusion of voices.]

SECRETARY SHULTZ: I came here to talk about the debt ceiling. It's very important for us to get from the Congress an extension of the debt ceiling, as we requested here. And one of the plagues that we have is that when we come to testify on that subject, it's hard to keep people on the subject, and it's even harder to keep the press on the subject...

Q: Let me get on the subject...

SECRETARY SHULTZ: You want to talk about...

Q: Let me get on the subject...

SECRETARY SHULTZ: ...energy, you talk to Governor Love.

Q: On that subject of the debt ceiling, you asked in there, Mr. Secretary, whether you had calculated the possibility of a recession which might produce shortfalls in income when you asked for the figure of the debt ceiling. What are the chances for a recession because of the energy crisis or any other factor, as you look ahead in the next few months?

SECRETARY SHULTZ: Well, clearly, the fact that we have less petroleum available to us than we thought we would have and that people had planned on presents a problem. And the name of the game here is to solve the problem by reducing uses of a less essential sort and therefore allowing the energy that we have to flow into the continued strong operation of the economy. And that takes some doing and it takes some thinking, and that's what we're trying to do.

I think one number that people haven't appreciated, but which I would call to your attention is that eighty-five percent of the energy we use in the United States is produced in the United States. Nobody can boycott us out of that energy. So eighty-five percent is here. And we import, of course, mainly petroleum products, and I believe something a little over half of the total imports come from countries other than the Middle Eastern countries...

Q: Are you saying that you don't believe there'll be a recession?

SECRETARY SHULTZ: I believe that there is a good chance, if we handle ourselves with good sense and a sense of balance here and we're willing to take decisive actions and do it promptly, that we can manage our affairs so we won't have any catastrophic fall-out for the economy. But we have to study this question and we have to think it through carefully and promptly and then take the action, and that's what we're trying to do.

Q: Mr. Secretary, one further question. In the light of what's happened in the last few days, particularly with respect on the New York Stock Exchange, what advice would you give at this point to those who.....

SECRETARY SHULTZ: I very seldom give free brokerage advice...

Q: Well, I'm not talking about brokerage advice. But what is your outlook with regard to the whole situation? Is this just a momentary phase? Is it going to continue for a while? Is it going to improve?

SECRETARY SHULTZ: Well, I think in the long run, the Arab boycott may be a blessing in disguise. Now, I admit the disguise is pretty heavy. But it's perhaps awakened us to the idea that in the United States we need not be dependent on others for our sources of energy. So this should be a lesson to us, to do the things that we need to do and which we can do in order to put ourselves in the position where we can be self-sufficient in this essential thing for our economy.

So they have wakened us up, and fortunately they've wakened us up at a time when we're not too dependent on them. So let's not ever get dependent on them.

REPORTER: Thank you very much, Mr. Secretary.

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104

GENERAL REVENUE SHARING
FROM CONCEPT TO PRECEPT

Remarks by

Graham W. Watt
Director, Office of Revenue Sharing
U. S. Department of the Treasury

before the

Symposium, University of Minnesota
School of Public Affairs
Minneapolis, Minnesota
November 14, 1973

It is but one month short of a year since the first payments authorized by the State and Local Fiscal Assistance Act of 1972 were made to more than 38,000 state and local governments, and general revenue sharing became a dream come true for Governors, county commissioners and mayors everywhere.

Since President Nixon signed the revenue sharing legislation on October 20, 1972, the new program has grown, developed and started to mature. General revenue sharing is in being and it is working.

Already, nearly $10 billion of shared revenues has been distributed and much of this has been quickly put to work to meet local and state needs as these needs are identified by responsible local and state officials.

How are the funds being used?

We know from the early reports received that revenue sharing is making a substantial impact on state and local taxes. About half of the governments have indicated that their first payments would reduce taxes or prevent an increase in tax rates. In some jurisdictions the funds will obviate enactment of a new major tax and in still others, tax rate increases are smaller than they otherwise would have been. Clearly, the tax pressure is off, and reports published recently in U. S. News and World Report and in the Tax Foundation Newsletter show a leveling of the tax burden nationally for the first time in several decades.

Many jurisdictions saw their first payments last December and January as windfalls and took the opportunity to invest substantial sums in long-delayed but high-priority capital improvements. Although reports would have you believe many of those expenditures were "frivolous" or unnecessary", I can assure you that the golf courses and tennis courts of which we've heard much are not typical of the investments being made.

We would not presume to judge these or any other investments, in any event, for what may seem to us to be a frivolous project may, in fact, be of critical importance to the community undertaking it.

Actually, very little money is being spent on recreation. Where capital improvements have been funded with shared revenues, we have found substantial new investments being made in facilities which contribute to the improvement of the human condition in such functional areas as health, education, housing and community development.

Now that the program has begun to mature and local and state governments are able to coordinate their plans for shared revenues with their plans for locally-generated funds in a normal budgeting process, we are observing a shift in use of revenue sharing money. Less and less of the money is going into capital improvements. Increasingly governments are applying shared revenues to current expenses, especially in the broad areas of public safety, public education, transportation, environmental protection and conservation, and public health.

Expressions of public officials leave no doubt that general revenue sharing provided essential relief, especially to local governments, barely in time to avert a fiscal crisis of national significance. Last month, Mayor Gribbs of Detroit said that general revenue sharing, "...has been the determining factor in turning Detroit from its downhill course and giving it the boost required to start it on the long uphill journey to fiscal stability

... I can unequivocally state that ... our cities could not have met the minimum needs of our residents without it." Mayor Dumas of East Baton Rouge Parish, Louisiana,has said that Baton Rouge "could not operate without general revenue sharing, and has called it "a godsend."

County Commissioner Dewey Kuhns of Kanawha County, West Virginia says that the program "gave local government a new life."

And Governor Dan Evans of the State of Washington claims that revenue sharing is responsible for the formation of a "new coalition" of state and local officials that work together for more effective government on all levels.

Just last month, The Wall Street Journal summed it up neatly when it characterized general revenue sharing as a "pleasant worry" for state and local officials, and pointed out that shared revenue has become the "newest and most predictable contributor to state and local budgets."

My principal role in this seminar series is to discuss the administration of this new federal program. As a case study in public administration, the creation and early operation of general revenue sharing is, I think, fascinating to contemplate. Consider the time frame:

106

On October 12, 1972, the Congress passed its version of President Nixon's general revenue sharing program.

A week later, the President signed the bill, and declared that "the new American revolution is truly under way."

Fifty-three calendar days later, on December 11, 1972, revenue sharing checks were mailed to each one of more than 38,000 units of state and local government.

One month later, a second payment to each government completed the distribution of the $5.3 billion calendar year 1972 entitlement.

In the days following the bill signing, there was no more clear mission for the small revenue sharing task force created within the Treasury Department than to get the checks out.

Computer programs were written, tested, debugged and tested again.

The Bureau of the Census conducted a special survey of governments to update its five-year-old data on local and state revenues.

New individual data calculations were made for about 28,000 places with under 2,500 population.

A data verification process was established to catch errors in data elements.

Interim regulations to cover the December payment were drafted by legal counsel, published, and distributed to all recipients.

A comprehensive public information program was designed to cope with the growing volume of mail, phone and personal inquiries that reached flood stage long ago and still shows no signs of ebbing.

Regional revenue sharing seminars were scheduled throughout the country in cooperation with the state and local public interest groups, and Treasury and OMB staff took the new program to the nati

Congress approved an Office of Revenue Sharing supplemental appropriation of $10.9 million for the remaining months of fiscal year 1973. Of that amount, $2.8 million reimbursed other federal agencies for data and technical services, and $7.1 million was allo- cated to the Internal Revenue Service for processing the revenue sharing-related information requested on 1972 individual income tax

187

forms. The remaining $1 million was earmarked for the operation of the Office of Revenue Sharing.

By setting an initial personnel limit of 32 on the Office of Revenue Sharing, Treasury and OMB officials helped to fulfill the President's wish to avoid the proliferation of another expensive bureaucracy in the administration of this, the cornerstone of his New Federalism. Accordingly, our small staff is known for its competence and flexibility.

Although our primary objective remains to get the money out to those who are entitled to it at the time they are supposed to have it, we are making substantial progress in other directions.

We are perfecting the formula allocation process, and improving the quality of data in order to insure complete equity as we compute the relative shares for all jurisdictions of the total funds authorized for distribution through our program.

We are helping recipient governments of all sizes and descriptions to qualify and to remain qualified for participation in the program and to achieve self-compliance with the law's minimal requirements, all with greatest ease and maximum certainty on their part.

We are developing our program data and administrative systems so as to minimize the burden of the reporting requirements of the law on recipient governments, while increasing improving the flow of information to citizens.

We seek always to avoid the creation of bureaucratic strings which are unnecessary and which cannot be justified as having basis in the law itself.

We resist attempts to subvert the concept of general fiscal support by special interest groups eager to use the leverage inherent in general revenue sharing to achieve their own goals. These goals, many of them very worthy, are important to their sponsors. But they are often far outside or even in direct conflict with the clear intent of Congress to create general revenue sharing as general support, free of strings, for local and state government.

We feel, too, a responsibility to exercise leadership to achieve integration of those requirements which may be common to both general and to special revenue sharing. We should minimize the fragmented federal impact upon more than 38,000 local and state governments, all of whom would like to deal with just one "Federal Government."

108

In all of these efforts we seek constantly to achieve fully the six basic characteristics of general revenue sharing:

1. Simplicity. The operation of revenue sharing is spelled out clearly and specifically in the law. The money is distributed on the bais of readily available objective data. The program is organized to operate with a minimum of federal agency administration and overhead.

2. Free of strings. States and local governments are encouraged to exercise their own discretion over the use of funds. Except for a few Congressionally mandated requirements, the funds are virtually free of federal strings.

3. Reliability. States and localities can rely on general revenue sharing in their fiscal planning. The funds are available automatically each year for the full five-year authorization of the program.

4. Fairness. The funds are distributed to every state, every city and every county in the nation. All areas are included, urban and rural, large and small, rich and poor, industrialized and agricultural.

5. Equity. Both interstate and intrastate distributions are made according to an objective formula which takes into account size, need and relative affluence of each recipient government.

6. <u>It is basic to the New Federalism.</u> Decision-making power over the funds is returned to state and local governments along with the money.

Important as the money is and dramatic as the other statistics regarding general revenue sharing may seem, the most significant impact of the new program is its effect upon the state and local government decision-making system.

Referring to revenue sharing as a major element in his program of "New Federalism", President Nixon declared in his 1972 State of the Union Address that "Revenue Sharing ... can help reverse ... the flow of power and resources toward Washington by sending power and resources back to the States, to the communities, and to the people. Revenue sharing can bring a new sense of accountability, a new burst of energy, and a new spirit of creativity to our federal system."

General revenue sharing combines the best of both worlds. It applies fast-growing federal revenues to fast-growing state and local requirements and it combines the efficiencies of a centralized tax system with the effectiveness of decentralized expenditure.

In the words of the President, "General revenue sharing sets our states and localities free -- free to set priorities, free to meet unmet needs,free to make their own mistakes, yes, but also free to score splendid successes which otherwise would never be realized."

No longer must state and local officials pick their new programs only out of a peculiar, mixed bag of federal categorical grants. The availability of new resources and the responsilibity for deciding how those resources are to be used requires local courage, creativity and an assumption of greater responsilibity in the federal system.

Courage is called for because local elected officials must now exercise difficult new choices among competing demands for still limited resources.

Creativity must be applied to make this relatively small amount of new discretionary money go farther, better.

We believe that these goals can and will be achieved, for, as Governor Daniel Evans recently declared from a podium at the National Press Club: "... the domestic affairs of the nation are not necessarily conducted with ... the greatest skill ... from the eastern shore of the Potomac River."

New information and management systems are being created, program costs and benefits are being measured with greater selectivity, and productivity has become a major concern of professionally administered governments.

More and more communities are defining their public service goals with renewed determination to use all available resources to best advantage.

Citizen participation in government is being improved, quantitatively and qualitatively, with the establishment of new mechanisms for public participation and the improvement of old methods. We find that this effort is most successful where it has been stimulated by sensitive local officials.

In countless cities, counties and towns throughout the nation, public hearings, citizen advisory committees, community-wide information programs, citizen surveys and similar mechanisms are being applied to the revenue sharing decision-making process. Where the public has been involved in the decision-making, the decisions made have received overwhelming public support.

The responsibility for the success of general revenue sharing rests, therefore, with official and citizen alike. Just as the money and decision-making authority are shared between levels of government, so also is the responsibility to see to it that the funds are used for the good of all shared between the citizen and his government.

Nowhere is this more clearly demonstrated than in the administration of the non-discrimination provision of the State and Local Fiscal Assistance Act.

The Act prohibits use of shared revenues in any program or activity which involves discrimination by race, sex, color, or national origin. Accountability in the first instance is local. But citizens and civil rights groups who need to do so may turn to us. The Office of Revenue Sharing and other agencies in the Federal government are fully prepared, when necessary, to insure local and state compliance with the non-discrimination requirements of the law.

As I have suggested the record of general revenue sharing is being created not just in the Office of Revenue Sharing in Washington, but also, simultaneously, in the city halls, the county courthouses, and the state capitals of the nation. When the time comes for Congress to consider renewal of the legislation that authorizes our program -- legislation that authorizes us to distribute money through the end of calendar year 1976 -- Congress will review the work of responsible officials at all levels of government.

Earlier in my remarks, I cited examples of the feedback we have been getting from cities, counties and states. These examples are typical of what we are hearing. I cannot imagine that Congress would turn a deaf ear to its many constituencies, especially if the revenue shortfall, particularly at the local level, again threatens the continuation of vital public services as it did just before the advent of revenue sharing.

The Congress will undoubtly consider the future of general revenue sharing as one of several alternative methods of providing federal financial assistance to state and local governments. One of these alternatives may involve greater emphasis on categorical grants or block grants. Another alternative suggested is that the federal government assume full finanical responsibility for public welfare and public education.

Another may involve a new allocation of responsibilities and new approaches to the distribution of revenue among levels of government creating an entirely new fiscal relationship within the U.S. Federal system, bringing to the table as equal partners the national, state and local governments periodically to consider the allocation of functional responsibilities and the expenditure consequences of changes of policy. Undoubtedly other alternatives will be proposed and considered as we work to evolve a new Federal system with a stronger intergovernmental base.

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State and local governments have already joined with us in declaring that general revenue sharing has become a vehicle through which a true partnership is being restored among all levels of government in the management of the public's business.

The New Federalism seeks to reorder roles and responsibilities among levels of government as most appropriate to the duties to be performed. This requires, in the words of William Safire, "...that power be permitted to seek its own level of efficient response, falling to the level of government that can deal directly and compassionately with human needs, decentralizing selectively to permit localities to develop institutions capable of gaining individual involvement. In the New Federalism we can enjoy once again a strong national union providing that which is most desirable in central government, accompanied by the blessings of decentralization with its respect for diversity, its ready response to local demands, and its personality tailored to its constituents."

In its first year of operation, general revenue sharing has already demonstrated its legitimacy as a concept basic to a reordering of America's public affairs at this moment in her history. And we in the Office of Revenue Sharing are confident that revenue sharing in practice, as well as in theory, will meet the need generally to strengthen our two hundred-year-old, but still young federal system of government.

The founders of our Nation entrusted to future generations the success or failure of the experiment they began, an experiment in self-government new in the history of nations. We are today deeply involved in that continuing experiment. This is not a scientific experiment with a dispassionate observer recording success or failure with equal interest. Ours is a participatory experiment, a vital experiment where the people of America are at once the experimentors, the observers, the beneficiaries and the sponsors.

General revenue sharing is a new element in this great experiment that must not be allowed to fail. As with all such endeavors in self-government, the future of revenue sharing will be decided by the citizens and their elected representatives. In the meantime, we pledge every energy to achieving for all Americans the great shared benefits envisioned by the sponsors of this new program of shared revenues.

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

112

FOR RELEASE 6:30 P.M. November 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 November 23, 1973, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing February 21, 1974			26-week bills maturing May 23, 1974		
	Price	Equivalent annual rate		Price	Equivalent annual rate	
High	98.092	7.632%		96.088 a/	7.781%	
Low	98.058	7.768%		96.056	7.844%	
Average	98.074	7.704%	1/	96.076	7.805%	1/

a/ Excepting one tender of $10,000

Tenders at the low price for the 13-week bills were allotted 30%.
Tenders at the low price for the 26-week bills were allotted 65%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 44,265,000	$ 33,765,000	$ 21,430,000	$ 10,580,000
New York	2,835,845,000	1,890,710,000	3,101,970,000	1,572,370,000
Philadelphia	27,490,000	27,490,000	34,155,000	8,275,000
Cleveland	47,620,000	47,620,000	32,305,000	20,955,000
Richmond	29,435,000	27,435,000	27,605,000	9,905,000
Atlanta	23,590,000	23,090,000	28,145,000	12,570,000
Chicago	364,625,000	216,625,000	393,100,000	36,745,000
St. Louis	63,475,000	48,475,000	68,260,000	45,560,000
Minneapolis	42,380,000	27,280,000	26,175,000	3,675,000
Kansas City	36,275,000	33,745,000	23,985,000	17,565,000
Dallas	41,220,000	21,220,000	35,300,000	10,800,000
San Francisco	203,820,000	102,595,000	234,095,000	51,295,000
TOTALS	$3,760,040,000	$2,500,050,000 b/	$4,026,525,000	$1,800,295,000 c/

b/ Includes $388,765,000 noncompetitive tenders accepted at the average price.
c/ Includes $183,805,000 noncompetitive tenders accepted at the average price.
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 7.96 % for the 13-week bills, and 8.24 % for the 26-week bills.

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

113

FOR IMMEDIATE RELEASE November 20, 1973

TREASURY DISCONTINUES ANTIDUMPING INVESTIGATION OF RUBBER THREAD FROM ITALY

Assistant Secretary of the Treasury, Edward L. Morgan, announced today a final discontinuance of the antidumping investigation of rubber thread from Italy. The decision will be published in the Federal Register of November 21, 1973.

A tentative discontinuance was issued on August 29, 1973. The investigation revealed some instances where the price to the United States was lower than the adjusted home market price of this merchandise. However, these were determined to be minimal in terms of the volume of export sales involved. Formal assurances have been received from the Italian manufacturer that no future sales of rubber thread for export to the United States will be made at less than fair value. This tentative discontinuance notice also invited submissions of written views and requests for an opportunity to present views orally.

During the seven-month period of January through July, 1973, imports of rubber thread from Italy were valued at approximately $686,000.

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

114

FOR IMMEDIATE RELEASE November 20, 1973

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $4,300,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing November 29, 1973, in the amount of $4,304,815,000 as follows:

91-day bills (to maturity date) to be issued November 29, 1973, in the amount of $2,500,000,000, or thereabouts, representing an additional amount of bills dated August 30, 1973, and to mature February 28, 1974 (CUSIP No. 912793 TA4) originally issued in the amount of $1,800,280,000 the additional and original bills to be freely interchangeable.

182-day bills, for $1,800,000,000, or thereabouts, to be dated November 29, 1973, and to mature May 30, 1974 (CUSIP No. 912793 TP1).

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 26, 1973. Tenders will not be received at the Treasury Department, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

(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 **November 29, 1973**, in cash or other immediately available funds or in a like face amount of Treasury bills maturing **November 29, 1973.** Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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

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

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

115

FOR IMMEDIATE RELEASE November 21, 1973

WITHHOLDING OF APPRAISEMENT ON
REGENERATIVE BLOWER/PUMPS FROM WEST GERMANY

Assistant Secretary of the Treasury Edward L. Morgan announced today a withholding of appraisement on regenerative blower/pumps from West Germany pending a determination as to whether they are being sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended. These blower/pumps have many uses including powering pneumatic conveying equipment, aerating sewage, powering dental aspirators and various ventilating uses.

This decision will appear in the Federal Register of November 23, 1973.

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

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

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

During the year-and-a-half period of January 1972 through June 1973, imports of regenerative blower/pumps from West Germany were valued at approximately $350,000.

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

116

FOR RELEASE SUNDAY
NOVEMBER 25, 1973

TREASURY DEPARTMENT ISSUES
SEX DISCRIMINATION GUIDELINES

The Treasury Department has issued sex discrimination guidelines for the Department-wide Federal Women's Program to assure equal employment opportunities for women.

Directed to bureau heads and personnel officers, the guidelines call for implementation and activities to comply with an Affirmative Action Plan in accordance with Executive Order 11478, the Equal Employment Opportunity Act of 1972 and Civil Service Commission personnel bulletins.

The general purpose of the Treasury guidelines is to increase substantially the number of women to high level positions, and to assure that qualified women are recruited, selected, placed and appointed to all kinds of positions within the Department of the Treasury.

The Department has appointed Ms. Perl Whelchel as Federal Women's Program Coordinator to serve as advocate, contributor and monitor, and provide technical assistance to assure that necessary specific actions are taken regarding equal opportunity.

S-328 (OVER)

Ms. Whelchel was formerly an Assistant Contract Compliance Officer at General Services Administration and the manager of the first Federal Information Center in Atlanta.

The guidelines call for top management involvement to implement the 17-point goals of the Federal Women's Program including use of part-time employees, a tracking program comparing salary and promotion progress of men and women, job vacancies posting, opportunity to participate in managerial, executive and supervisory training courses, skills evaluations and training for advancement.

Additionally, the guidelines provide for a quarterly progress report to include total employment by grade level with a breakout of women, percentage hired, promoted and participating in training courses.

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

17

FOR IMMEDIATE RELEASE November 21, 1973

SALE OF APRIL AND JUNE TAX ANTICIPATION BILLS

The Treasury is selling $3.0 billion of tax anticipation bills, $1.0 billion which are an additional amount of those maturing in April 1974 and $2.0 billion to mature in June 1974.

The bills will be auctioned on Wednesday, November 28, for payment on December 3. Commercial banks may make payment for 50% of their own and their customers' accepted tenders by credit to Treasury tax and loan accounts.

The bills will mature on April 19 and June 21, but may be used at face value in payment of Federal income taxes due on April 15 and June 15, 1974, respectively.

The Treasury noted that a somewhat larger financing at this time than it had earlier anticipated is prudently required to offset actual or potential redemption of Treasury securities held by foreign monetary authorities and to afford adequate flexibility in the absence of authority to borrow directly from Federal Reserve Banks.

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

118

FOR IMMEDIATE RELEASE November 21, 1973

TREASURY OFFERS $3.0 BILLION OF APRIL AND JUNE TAX ANTICIPATION BILLS

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $3,000,000,000,or thereabouts, as follows:

137-day bills (to maturity date) to be issued December 3, 1973, in the amount of $1,000,000,000, or thereabouts, representing an additional amount of bills dated November 1, 1973, and to mature April 19, 1974 (CUSIP No. 912793 UC8) originally issued in the amount of $2,006,685,000,the additional and original bills to be freely interchangeable. The bills will be accepted at face value in payment of income taxes due on April 15, 1974.

200-day bills, for $2,000,000,000,or thereabouts, to be dated December 3, 1973, and to mature June 21, 1974 (CUSIP No. 912793 VN3). The bills will be accepted at face value in payment of income taxes due on June 15, 1974.

The bills of both series will be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided and at maturity, to the extent they are not presented in payment of income taxes, 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).

Taxpayers desiring to apply these bills in payment of 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 the appropriate income tax payment 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 the date the taxes are due. 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 the date the taxes are due to the Internal Revenue Service Center Director for the District in which such taxes are payable.

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty, p.m., Eastern Standard time, Wednesday, November 28, 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

(OVER)

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 bid for under this offering at a specific rate or price, until after one-thirty p.m., Eastern Standard time, Wednesday, November 28, 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 $250,000 or less for the 137-day bills and $500,000 or less for the 200-day bills, 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 in cash or other immediately available funds on December 3, 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.

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

119

FOR IMMEDIATE RELEASE November 23, 1973

Treasury Secretary George P. Shultz today issued the following statement on the death of Kiichi Aiichi, Minister of Finance of Japan:

"I was shocked and saddened to learn today of the sudden death of Mr. Aiichi. He was a personal friend and a most respected and distinguished statesman. During a period of difficult economic transition in the world, his contributions and leadership in forging new rules for economic harmony will be greatly missed."

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

120

FOR IMMEDIATE RELEASE Nov. 23, 1973

IRS DEPUTY CHIEF COUNSEL ROGER V. BARTH RESIGNS

Treasury Secretary George P. Shultz today announced he has accepted with regret the resignation of Roger V. Barth, Deputy Chief Counsel of the Internal Revenue Service. The resignation is effective Dec. 31.

Mr. Barth plans to become a partner in the Washington,D.C., law firm of Webster and Kilcullen.

In his letter to Mr. Barth, Secretary Shultz wrote, "Your dedication and ability have added greatly to the progress of the Internal Revenue Service."

Mr. Barth has served as Deputy Chief Counsel since October 1972. For three years prior to that, he served as Assistant to two Commissioners of Internal Revenue. Before joining the IRS in 1969, Mr. Barth practiced tax law with a Buffalo,N.Y., law firm.

Mr. Barth, a native of Buffalo, is a member of the American, New York State and District of Columbia Bar Associations. As Deputy Chief Counsel of IRS, he assisted in planning and directing policies and programs for the 750 attorneys in the Chief Counsel's office.

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S329

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

121

FOR IMMEDIATE RELEASE November 26, 1973

HIGHLIGHTS OF REMARKS BY
THE HONORABLE RICHARD LARSEN
DEPUTY ASSISTANT SECRETARY OF THE TREASURY
FOR DEVELOPING NATIONS FINANCE
BEFORE THE ANNUAL CONVENTION OF
THE MINNESOTA ASSOCIATION OF SOIL & WATER CONSERVATION
DISTRICTS, ROCHESTER, MINNESOTA
NOVEMBER 26, 1973

Deputy Assistant Secretary Richard Larsen today discussed the role of U.S. agriculture in international trade in a speech before the Annual Convention of the Minnesota Association of Soil and Water Conservation Districts. He focused on the various international negotiations now taking place in the monetary, trade and development sectors, calling them a cooperative venture for the nations involved, and summarizing the progress which has been reached in each. Emphasizing the need for the efficient use of economic resources, Dr. Larsen noted that the increasing global interdependence brings pressures to bear on countries to find a new, workable system of rules in the monetary and trade areas which will permit the further expansion of trade.

Agricultural trade has -- and will continue to have -- a major role in the new international system, especially in its effects on trade balances. U.S. agricultural exports alone reached a record $12.9 billion in fiscal 1973 -- up 60 percent from the $8.05 billion exported the previous year -- for a net contribution to the U.S. trade balance of $5.6 billion. The average citizen has gained an increased awareness of agricultural trade over the past several years and, as George Shultz recently commented, "even the Secretary of the Treasury has to become an expert on agriculture these days."

The emphasis on agriculture will continue, Dr. Larsen believes, as world standards of living improve and the demand for protein foods continues to expand. The United States has the capacity to produce agricultural goods in large quantities

(OVER)

for the world markets and this ability also provides a vehicle by which we can generate foreign exchange to finance our energy and raw materials imports. The formulation of a reformed trading system is of vital concern to the United States. The trade and monetary reforms now in the process of negotiation will create an environment in which the U.S. will be able to compete for world markets on a freer and fairer basis. Dr. Larsen pointed out that agriculture will be a central focus for discussion in the GATT multilateral trade negotiations which opened in September 1973.

oOo

122

November 26, 1973

MEMO FOR PUBLIC AFFAIRS OFFICERS:

Secretary Shultz told a group of reporters on his return from Europe late today that he and Arthur Burns and Paul Volcker met with their European counterparts to talk about their mutual problems in a quiet atmosphere. They followed up their Nairobi meeting, Shultz said, focussing on monetary reform. There is a lot of uncertainty, Shultz said, in their estimate of the current situation, this situation influenced by the Arab oil boycott.

Although the U.S. currently is less affected by the oil shortage than our European friends, no one is certain what problems will arise as a result of the interrelationships of a comparatively healthy U.S. with Europeans who are in greater trouble.

In response to questions, Secretary Shultz said the U.S. thought the value of the dollar pegged at about the level of the second devaluation was about the right price, and that he looked forward to some reflows from the reserves of nations who took in a lot of dollars during the recent speculative surges.

Asked if the finance ministers expected to meet their self imposed July 31 deadline, Shultz said they were working toward this, but he hedged in predicting they would meet it on that date and hour.

As for the current energy crisis, the Secretary said he thought the U.S. could meet its immediate problems by cutting energy use at least ten persent. The days of cheap oil are over, he suggested; we should never again be caught in the position the Arabs have us now. The profit levels and tax consequences of the current oil price increases are again under Treasury study, he suggested.

The IMF will handle the announcement of a new deputy to the Director, he added.

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

123

FOR RELEASE 6:30 P.M. November 26, 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 November 29, 1973, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing February 28, 1974		:	26-week bills maturing May 30, 1974	
	Price	Equivalent annual rate	:	Price	Equivalent annual rate
High	98.068	7.643%	:	96.148	7.619%
Low	98.053	7.702%	:	96.106	7.702%
Average	98.055	7.695% 1/	:	96.118	7.679% 1/

Tenders at the low price for the 13-week bills were allotted 84%.
Tenders at the low price for the 26-week bills were allotted 31%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 36,845,000	$ 18,610,000	:	$ 18,410,000	$ 7,360,000
New York	3,600,640,000	2,157,670,000	:	2,848,810,000	1,457,790,000
Philadelphia	51,655,000	19,170,000	:	18,625,000	6,755,000
Cleveland	36,050,000	31,255,000	:	19,775,000	15,095,000
Richmond	43,000,000	19,250,000	:	41,630,000	9,985,000
Atlanta	20,800,000	15,100,000	:	19,330,000	14,430,000
Chicago	295,025,000	111,015,000	:	287,400,000	138,090,000
St. Louis	53,500,000	22,860,000	:	50,805,000	20,655,000
Minneapolis	28,730,000	5,180,000	:	24,390,000	4,390,000
Kansas City	28,765,000	23,270,000	:	40,770,000	16,270,000
Dallas	44,410,000	16,410,000	:	34,130,000	7,830,000
San Francisco	186,740,000	60,550,000	:	213,640,000	101,365,000
TOTALS	$4,426,160,000	$2,500,340,000 a/	:	$3,617,715,000	$1,800,015,000 b/

a/ Includes $318,320,000 noncompetitive tenders accepted at the average price.
b/ Includes $159,420,000 noncompetitive tenders accepted at the average price.
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 7.96 % for the 13-week bills, and 8.10 % for the 26-week bills.

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

124

FOR RELEASE AT 9:30 A.M.
TUESDAY, NOVEMBER 27, 1973

EXCERPTS FROM REMARKS OF THE HONORABLE EDGAR R. FIEDLER
ASSISTANT SECRETARY OF THE TREASURY FOR ECONOMIC POLICY
BEFORE THE 1973 ANNUAL MEETING
OF THE AMERICAN LIFE INSURANCE ASSOCIATION
WASHINGTON, D. C.
NOVEMBER 27, 1973

The energy crisis has cast a forebodingly dark cloud over the economic outlook for 1974. Many people have concluded that this dark cloud harbors a deadly tornado that will send the economy into a tailspin.

A more reasonable conclusion, it seems to me, is that the dark cloud contains some rain and even some bolts of lightning but nothing that would be destructive of the basic prosperity that Americans are enjoying.

How much difficulty the energy shortage will cause for the economy in the months ahead, I do not know. Furthermore, I do not know anybody who does know -- which means that almost everybody is highly uncertain about the prospective economic situation. Inevitably, this widespread uncertainty produces two things: a lot of hogwash and a lot of unsupported despair.

While I cannot assess for you precisely how much economic difficulty the energy crisis will produce, it is worthwhile to review some of the essential elements of the present situation. While some of these points are fairly simple and straightforward, it is clear that they are not widely understood.

The most basic fact is that the U.S., at least through the winter of 1974 and quite possibly longer, will experience a substantial shortage of energy because of the Arab oil boycott. During the first quarter of 1974, the shortfall

S-330

adds up to about 17 percent of total petroleum demand, or about 8 percent of the total demand for energy.

We can, however, make up a good bit of that shortage through simple conservation measures such as reduced automobile speeds, reduced thermostat settings and fewer airline flights. I am impressed with the potential that exists throughout our society for energy conservation. I disclaim any expertise in this area, but the multitude of energy-saving possibilities that have come to light in the past month is striking. A noteworthy example is the amount of energy savings achieved by residents of the Northwest in response to the shortage of hydroelectric power since early this summer.

Also, we can offset some of the shortage through substitution: by taking oil from the reserve supplies at Elk Hills, California, by reopening the Santa Barbara Channel to drilling, by higher production in certain other domestic oil fields, and by using coal in place of oil and natural gas in some applications.

Nevertheless, the energy shortage is larger than we can overcome by simple and relatively painless methods of voluntary conservation and by substitution. The President and the Congress working together have already set in motion a number of major steps to deal with the situation. Other decisive actions to allocate the available supplies of energy will be forthcoming.

In the last analysis, the need to allocate the limited supply can be met in only three ways: through the price system, through taxes on energy use, and/or through direct rationing. Each of these methods has serious disadvantages. Large price increases are politically unacceptable in themselves, as are the windfall profits that they generate. Large increases in energy-use taxes are as politically unacceptable as large increases in prices. Also, if tax increases take the profit out of the energy scarcity, they simultaneously remove the incentive for developing additional sources of energy. Finally, direct rationing by coupons, while it may be politically acceptable by giving the appearance of equal treatment to all (a terribly deceptive myth, since we are all very unequal in our need for energy) is in fact the most undesirable solution. Aside from the nightmarish bureaucratic superstructure and the black marketeering that would develop, direct rationing precludes the incentives for new production and the reduction in demand that higher prices would create.

125

Thus, each of the basic methods of allocating energy is unacceptable for important reasons. Yet there is no alternative to using some method of allocation. There is a shortage. We cannot burn what we do not have.

Perhaps, when the decisions are made, we will have to use all three of these methods. In my view, direct rationing should be the last resort. Nevertheless, if we do turn to direct rationing, I think we should not use it alone. We should not forfeit the contribution that the price system and use taxes can make in helping us adjust to the sudden shortage of energy.

This is especially true in view of the long-run need to adjust to permanently higher energy prices. Even if the absolute shortage should prove to be short-lived, energy prices are almost sure to be much higher for the indefinite future. We will have to adjust our way of life to this new fact, and sooner or later the relative price of energy will have to be part of that adjustment.

Another major question in allocating the energy shortage is what sectors of the economy should absorb the reduction in supply. As we see it, the best choice is for most of the reduction to come out of the household sector through a reduction in low-priority heating, lighting, and automobile use, rather than to take it out of the business sector.

Loud objections have already been raised to this course of action. Such a policy, we hear, would take the shortage out of the hides of the people. The people are not responsible for the shortage, and should not be made to bear the burden of it. Instead, the burden should fall on "business".

To me this is a pointless way of looking at the problem. What is represented by the term "business" is simply a way of organizing the economic activity of people. If the shortage is allocated primarily to the business sector, then the shortage falls on the people in the form of fewer jobs, fewer goods and services available for purchase, and reduced wages. If, on the other hand, the household sector absorbs most of the shortage, then it falls on the people in the form of lower thermostat settings, less recreational driving, and the like. Thus the energy shortage has to be absorbed by the American people in one way or another, and there will be fewer difficulties for people if we reduce unnecessary energy use in households, as opposed to creating unemployment and reducing consumption and income.

This does not mean cold houses and immobilized automobiles; the shortage is not that great. Nor does it exempt the business sector from the consequences of the shortage; they too will have to conserve on heating and other energy uses. But on balance, the American people will be better served if the energy shortage is absorbed primarily by lower thermostats and less use of the private automobile. In that way, the overall impact on our economy and on the people will be minimized.

In summary, I think it is clear that the energy shortage will have a noticeable impact on the economy. The dark cloud that I mentioned earlier does contain more difficulties for us than just a brief rain shower. The energy shortage is of substantial dimensions and dealing with it will require substantial adjustments.

But it is equally clear, I think, that the energy shortage will not produce a major recession. We have the ability and the flexibility to cope with this problem successfully. If we absorb the bulk of the shortage through conservation measures in all parts of society and especially through reductions in unnecessary heating, lighting, and automobile use, then the impact on production and employment will be limited in size and scope.

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

124

FOR IMMEDIATE RELEASE November 27 1973

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $4,300,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing December 6, 1973, in the amount of $4,309,715,000 as follows:

91-day bills (to maturity date) to be issued December 6, 1973, in the amount of $2,500,000,000, or thereabouts, representing an additional amount of bills dated September 6, 1973, and to mature March 7, 1974 (CUSIP No. 912793 TB2) originally issued in the amount of $1,808,500,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,800,000,000, or thereabouts, to be dated December 6, 1973, and to mature June 6, 1974 (CUSIP No. 912793 TQ9).

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, December 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

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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 **December 6, 1973**, in cash or other immediately available funds or in a like face amount of Treasury bills maturing **December 6, 1973.** Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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

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

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

127

November 27, 1973

NOTE TO CORRESPONDENTS

Attached is a copy of the letter of transmittal from the Secretary of the Treasury to the Speaker of the House proposing legislation to increase the size of the Executive Protective Service. A copy of the proposed bill is also attached. A similar letter was transmitted to the President Pro Tempore of the Senate.

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S-331

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

128

NOV 27 1973

Dear Mr. Speaker:

There is transmitted herewith a draft bill, "To increase the size of the Executive Protective Service."

The purpose of the proposed legislation is to increase the limit on the numerical strength of the Executive Protective Service from 850 to 1200 members.

Public Law 91-217, approved March 19, 1970, changed the name of the White House Police force to the Executive Protective Service and added to its responsibilities the protection of foreign diplomatic missions located in the Washington metropolitan area and foreign diplomatic missions located outside the metropolitan area on case-by-case basis as the President may direct. Public Law 91-217 also increased the size of the force to its present limit of 850 members to meet the new responsibilities. The addition of the protection of foreign diplomatic missions to the duties of the force and the increase in its size were in recognition of the obligation of the United States as the host government, under international law and practice, to take reasonable precautions to assure the safety of foreign diplomatic officials and embassies of foreign governments.

The protection of foreign diplomatic missions became operational during 1970 soon after that function was vested in the Executive Protective Service. At the time, it was considered that a force of 850 uniformed police could fulfill the existing responsibilities and the added responsibility of the protection of foreign diplomatic missions. However, shortly thereafter an increasing number of foreign governments expressed their concern over the degree of protection afforded their diplomatic personnel and their missions. Within a year, requests for protective service had risen so rapidly that it was not possible to fulfill the demands with the existing force. The trend has continued and from 1971 to 1973 requests from the State Department for protective services have increased as follows: fixed posts, 72 to 168; Blair House, 8 to 14; short beats, 9 to 24; special protective attention, 92 to 171; and diplomatic receptions, 132 to 427.

The growth in the requests for the services of the Executive Protective Service is directly related to the increasing number of world-wide politically motivated terrorist acts, and to some extent, the number of criminal acts victimizing embassies and personnel in the Washington area. To illustrate, the following criminal incidents were reported by the foreign embassies in the metropolitan area during the period from August 20, 1970 to August 31, 1973: 25 breaking and enterings; 4 bombings; 92 bomb threats; 6 assaults; and 24 larcenies. During the same period, the world experienced the assassination of members of the Israeli Olympic Team, the murder of two of our diplomats in Sudan, the shooting of Colonel Josef Alon, and a rash of politically motivated kidnappings. As the host country, we must do our utmost to prevent the victimization of foreign missions and their personnel and the proposed increase in the size of the Executive Protective Service is designed to assist in accomplishing that goal.

The cost of the proposed legislation is estimated at approximately $3,500,000 for the remainder of fiscal year 1974, $7,500,000 in fiscal year 1975, and $8,000,000 for each of the succeeding three fiscal years.

It would be appreciated if you would lay the draft bill before the House of Representatives. An identical bill has been transmitted to the President pro tempore of the Senate.

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

Sincerely yours,

George P. Shultz

George P. Shultz

The Honorable
Carl Albert
Speaker of the House
of Representatives
Washington, D. C. 20515

Enclosure

129

A BILL

To increase the size of the Executive Protective Service.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That subsection (a) of section 203 of title 3, United States Code, is amended by striking out "eight hundred and fifty" and inserting in lieu thereof "twelve hundred".

HIGHLIGHTS OF GASOLINE RATIONING IN WORLD WAR II

prepared for
William E. Simon
Deputy Secretary of the Treasury
November 1973

The gasoline rationing program carried on for 38 months in World War II was reorganized three times and to the very time of its termination in 1945, was beset with extensive administrative, enforcement, and political problems. A sketch of how the program was administered and some of the problems encountered follows.

As an introduction, the following table shows the number of vehicles on the road today as compared with 29 years ago.

	1944	1972	1973 1/
Cars	25,466,000	96,860,000	101,237,000
Trucks & Buses	4,620,000	21,646,000	23,247,000
Total Vehicles	30,086,000	118,505,000	124,484,000

Gasoline rationing first became effective in 17 Eastern States on May 15, 1942 (because of the large number of tankers being sunk by submarines along the East Coast), was extended to all States on December 1, 1942, and was terminated August 15, 1945. From January 7 to March 22, 1943 and from May 20 to September 1, 1943, all pleasure driving was banned and no one could drive a car except for an "essential purpose."

1/ Estimated for 1973; represents largest annual incremental increase in motor vehicles on record.

131

Gasoline rationing was administered by the Office of Price Administration (OPA), which was comprised of 8 regional offices, some 90 district offices, and 5,525 local boards. One of the primary purposes of gasoline rationing was to preserve rubber. Efforts were made to hold annual average mileage to 5,000 miles and to restrict speed limits to 35 miles per hour.

OPA was allocated gasoline for rationing with quantities categorized for passenger cars, commercial vehicles, farm use and non-highway use. Consumer rationing was done through coupons which were valid for a fixed period of time. The value of the coupons was subject to change; thus, a person's gasoline ration could be cut in half simply by issuing a federal order which doubled the length of time that a set of coupons would have to last the driver, or by reducing to 50 percent the amount of gasoline for which the coupons could be used.

BASIC RATIONING FEATURES

There were 4 coupon categories:

Basic rations could be obtained for use with a registered car (Class A books) and motorcycle (Class D books). When the program began in 1942, Class A books contained 6 pages of 8 detachable coupons per page, entitling the holder to 48 units of gasoline for 1 year's use. The 8 coupons on each page could be used for a stated 2-month period only. The gallonage value of each coupon was changed from time to time, but when the program began intent was to hold driving to not more than 150 miles per month. At first, A coupons were worth 4 gallons each or 16 gallons a month. Coupons were later cut to 3 gallons each and at times increased to as much as 6 gallons each.

132

<u>Supplemental rations</u> could be issued for occupational mileage: Class B (16 coupons for 3 months use) or Class C (number of coupons determined from a table). Class C drivers were essential users (tire eligibles) such as doctors, maintenance men, and candidates for office. Supplemental coupons had a value of 5 gallons each and were to provide mileage in excess of 150 miles for occupational driving.

<u>Non-Highway rations</u> were issued for three-month periods. These came under Class E and Class R books, the coupons in each being worth one unit; Most were to farmers.

<u>Commercial users</u>, including contract and common carrier truck and bus lines, operated under the auspices of the Office of Defense Transportation. They received T, later S, coupons from that agency. The coupons could be used for any vehicle in a fleet under common ownership. Enforcement was particularly difficult here.

<u>LOCAL RATIONING BOARDS</u>

Local rationing boards were considered to hold a similar position to those of courts. Members were nominated by the Local Defense Council and cleared with the State OPA director, who worked closely with the chief State school officer. Members had to devote 8 hours a week and the size of the board ranged from 3 - 12 persons (ratio of about 1 person per 7,000 population). The State OPA director was responsible for appointing a custodian for each county who distributed rationing forms and materials to county rationing boards. Public schools were widely used as the sites for board meetings and administration of the rationing program.

133

COUPON FLOWBACK

Coupons issued by the rationing board went to the consumer. In purchasing gasoline, the consumer turned his coupons into the dealer who in turn gave his coupons to his source of supply - the distributor. Those coupons then were deposited by the source of supply into a bank account.

There were some 14,000 commercial banks who established rationing accounts. Each gasoline distributor had an account on which he could draw a check similar to a money account.

Each month, the gasoline distributor was required to make a report to the State tax administrator and send a check from his rations banking account which showed a record of every gallon of gasoline sold. The State tax administrator verified the amount of checks turned in along with statements of usage by various distributors. This information was sent from each State to the audit and control sections of OPA in Washington.

GASOLINE PRICES, VOLUME, AND NUMBER OF CARS

Prices were held to a very stable level as shown in the following chart of average prices for regular gasoline in 55 key cities:

Year	Gasoline Basic Price	State & Fed. Tax	Total Price to Customer	Percent Increase
1939	13.31	5.44	18.75	
1940	12.75	5.66	18.41	(1.8% dec.)
1941	13.30	5.93	19.23	4.2
1942	14.46	5.97	20.43	6.2
1943	14.56	5.97	20.53	.4
1944	14.62	5.97	20.54	.2
1945	14.48	6.02	20.50	(.4% dec.)

134

Volume of gasoline in barrels per day allocated for civilian use was gradually cut from 1,800,000 in 1941 to 1,257,000 in 1944, a decrease of 30 percent. (Note: In the first 10 months of 1973, demand for gasoline averaged 6,700,000 barrels per day, a gain of 5.2 percent over 1972).

The number of civilian cars in 1941 totaled 28,100,000, which gradually decreased to 25,466,000 in early 1944, and to 24,300,000 by the end of 1944, an overall decrease of 13 percent.

INSTRUCTIONS TO GASOLINE STATIONS:

Instructions to gasoline station operators were different for each coupon book. For example, with coupon book A, the station operator was instructed to:

1. Examine the customer's ration book to be sure there is an adequate number of currently valid coupons to cover the purchase. (Detached coupons must not be honored.)

2. Check the description as shown on the front of the book with automobile for which he is buying the gasoline. The registration number of the vehicle as shown on the book should be that number which appears on the large standard size license plate. (If there is any doubt about the identification, you must check the Use Tax Stamp number on the book with the number which appears on the Use Tax Stamp of the vehicle.)

3. Detach the necessary coupons to cover the requested purchase.

4. Plaće the gasoline only in the fuel tank of the automobile described on the book.

137

You are to remove a number of coupons at least equal to the amount of gasoline sold. Example: If the current unit value of a coupon, as announced by the Office of Price Administation, is 4 gallons and the customer purchases 8 gallons, you must detach 2 coupons. In cases where the purchase is a fraction of a current coupon value, you must detach a complete coupon. Example: Based on an assumed coupon value of 4 gallons, you will detach 1 coupon for each purchase up to and including 4 gallons, 2 coupons for each purchase of more than 4 and up to and including 8 gallons, etc.

FORMS AND BOOKS

As a measure of the paper work involved in rationing, inauguration of the coupon plan in the 17 Eastern States in May 1942, necessitated the preparation and distribution of 34 types of forms and books aggregating 187,971,000 separate pieces. There were 7,746,000 automobiles registered in the area, less than 8 percent of the 101,237,000 automobiles in the U. S. today.

OPA encountered considerable difficulty in administering rationing. The uneveness of granting the initial allocation of coupons (whether A, B, or C), granting appeals for higher priority; thus, additional coupons, and the checking of compliance and enforcement eroded the good will of the public.

136

BLACK MARKET IN GASOLINE

The rationing period of World War II witnessed a nationwide black market. Part of this can be attributed to sophisticated crime rings while other segments grew in a more desultory fashion, including your man on the street.

Extensive illegal marketing practices crept into gasoline during the last half of its rationing. The situation became so apparent that Congress held hearings on the black market in gasoline through the months of April and May, 1944.

Since the whole system of gasoline rationing depended heavily upon the coupon system, black marketeers also used the coupon system to remain unobtrusive. Illegal use of gasoline was accomplished by one of three means:

1) through counterfeit coupons
2) through stolen coupons
3) through overapplication by a consumer for gasoline.

Counterfeit coupons were usually sold in bulk to the filling stations or gasoline distributor rather than the customer. When a customer came in for 10 gallons of gasoline but only had coupons for 5 gallons, the filling station would sell him the additional 5 gallons and hand over 5 counterfeit coupons to his gasoline dealer or ration bank account. In this way the filling station would sell more gasoline by showing more need through the illegal coupons. Valid coupons were marked with fluorescent numbers, making detection of counterfeit coupons a fairly simple matter if one had the right equipment. Coupons were examined at the ration banks and counterfeits were sent to the OPA in Washington. The OPA issued bulletins on counterfeits to warn all their counterfeit experts who worked in conjunction with the Secret Service.

Once an optimum number of counterfeit coupons was detected from a certain filling station, the operator of the station had to appear before a hearing commissioner who determined whether or not the gasoline delivery should be suspended to this individual operator. The hearing commissioners were required to be attorneys and approved by the Civil Service Commission.

Stolen coupons and overapplication for gasoline was harder to detect than counterfeit coupons. An OPA official estimated that 300,000,000 gallons worth of stamps were stolen from the ration boards. The same official stated that approximately 5% of rationed gasoline was misused as a result of counterfeit and stolen coupons.

Misuse of a single gas rationing coupon risked $10,000 and a year in jail, but gasoline abuses were the most flagrant of all. With the appearance of synthetic tires and the suspicion

138

that gasoline was not really in such short supply, the consumer became less convinced of the necessity of the program. Cooperation was also undercut by wage increases because of the wartime economy. Yet there was little to buy.

On the black market, illicit coupons could be obtained for $25 to $35 per 100 gallons. Some gas stations charged $.60 a gallon and didn't ask for coupons. Gasoline normally sold about $.20 a gallon. Bootleg coupons sold for 3-5¢ a gallon to gas stations which passed gas on at 100% to 200% markup over cost.

LIMITATION-ORDER METHOD OF GASOLINE CONTROL

Prior to the beginning of the formal gasoline rationing program in May 1942, a program was implemented which cut to 50 percent of normal, deliveries of gasoline to dealers. In turn, dealers were out of gasoline for considerable lengths of time. Customers in turn, drove thousands of extra miles in search of gasoline. Many man-hours were lost in vital war industries because workers found dealers' pumps dry when they required gasoline to get to work. Dealers were accused by the public of favoring friends by giving them extra gasoline or of selling it to customers willing to pay higher prices. The limitation-order program was dropped after only a few months as being unworkable and creating considerable public ill-will.

139

BAN ON PLEASURE DRIVING

Two attempts were made in 1943 to enforce a ban on pleasure driving; both failed after only a few months of trial. In a critique of the rationing program, OPA officials concluded that no phase of rationing, other than the meat crises, stirred so much or such generally unfavorable publicity; none posed so acutely the hard questions of public policy and private interest in the apportionment of sacrifices, nor brought out so many callous displays of personal disregard for the sacrifices of others.

The question of essential driving was left to local boards. Clearly, going to see a doctor or going to church was legitimate and going to a baseball game or night club was not. But in between the two extremes the borderline was vague. Local police were solicited to help enforce the ban, but the novelty soon wore off and within police departments there was much disagreement upon the meaning of essential driving. In some communities, it proved easy to avoid the ban without detection, or at least, without punishment. Many who observed the ban, saw their neighbors violating it with impunity. Some who had saved their coupons for special occasions felt ill-used when told that their planned trips were banned. Overzealous and indiscriminate enforcement efforts including dragnet raids at racetracks and similar amusement centers provoked resentment. Complaints poured in from all quarters of opinion, newspaper publicity was wide and unfavorable, and pressure upon the OPA, members of Congress, and other government officials to lift the ban became intense. The ban failed

140

THE ENFORCEMENT PROBLEM

The task of enforcing rationing became one of the most extensive law enforcement projects ever undertaken by the government. With almost every person in the Nation affected in some fashion, the complex movement of gasoline through a series of producer to marketing channels and the immense amount of paperwork with the coupon system, the number of transactions ran into the billions.

The principal purpose of enforcement activities was to secure compliance with the regulations, that is, to prevent violations rather than to obtain convictions. To this end, it was necessary to discover and punish violators in order to deter them and others from further violations.

The scope of the controls was so broad, the number of parties involved so great, and the potential violations so numerous, that a reasonable compliance could be obtained only if there was generally a voluntary adherence to the rules. To this extent, the patriotic fervor built up because of the war effort helped somewhat. Even so, violations were extensive.

In March 1944, checks by OPA indicated that about 5 percent of the civilian supply, or 60,000 barrels a day, was being lost to black marketers and counterfeiters who stole, printed, and sold gasoline coupons, and to chiselers who bought them or bought gas without coupons. Cases were documented that persons with long criminal records were buying and leasing gasoline stations and wholesale distributorships.

 141

OPA records of convictions in black market cases were studded with names of hardened criminals who for years had been linked with big-time bootlegging, counterfeiting, white slavery, kidnapping, and murder, and who were in gasoline misuse, following well-established racket formulae.

Counterfeit coupons reached a value of 3 to 4 cents per gallon at the peddler level and as high as 10 cents per gallon at the car-owner level.

The OPA had only 2,800 investigators, or less than one per county. Therefore, many violators were never caught. Despite short manpower, the investigators established an impressive enforcement record. For example, from January 1, 1944 to June 1, 1944 (5 months) they:

1) Arrested 1362 counterfeiters, peddlers and gasoline dealers handling counterfeit or stolen coupons.

2) Of these, 607 were tried and convicted.

3) 236 received jail sentences (50 of these received sentences of more than one year.

4) 40,480 filling stations which had taken invalid coupons for gasoline (worth more than 7,000,000 gallons) were required to make good with legal coupons.

156 of these stations put themselves out of business by making repeated illegal sales.

5) There were 1538 filling stations who sold gasoline without valid coupons who were denied the right to buy or sell gasoline for periods ranging from a few weeks to the duration of the war. Many of these stations had bought counterfeits to

142

6) 775 car owners who had purchased gasoline with stolen or counterfeit coupons (or without any coupons) lost their rations. 159 car owners were convicted on the same charge by the courts; of these, 28 were sent to jail.

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

143

STATEMENT OF THE HONORABLE FREDERIC W. HICKMAN
ASSISTANT SECRETARY OF THE TREASURY FOR TAX POLICY
BEFORE THE SUBCOMMITTEE ON ENERGY
SENATE FINANCE COMMITTEE
WEDNESDAY, NOVEMBER 28, 1973

Mr. Chairman and Members of this committee, I am pleased to be with you this morning and to discuss with you, on behalf of the Treasury Department, the question of "Fiscal Policy and the Energy Crisis."

I do not appear before you as an expert on the intricacies of the energy problem, and I shall confine my remarks to the role of taxes and to aspects of government revenues and expenditures as they relate to the energy problem.

It is important, at the outset, to distinguish between short term and long term problems. The immediate problem is how to allocate the current reduced supply. The long term problem is how to make the United States' demands for energy compatible with the rest of the world's demands for energy and with the world's supply of energy commodities. Let me look first at the short term.

The Short Term Outlook

We are at present and at current price levels faced with a shortage of petroleum products. The fundamental economics of a shortage are often lost in discussion. A shortage exists when there is not enough of a product to satisfy those who would like to buy it at the existing price. In a free market, shortages do not exist, as the price simply rises; the number of people who wish to purchase the products decreases as the price rises; and ultimately supply and demand balance out. The price at which that occurs is often referred to as the price which "clears the market."

At the present time, we have two special factors which must be taken into account, and which accentuate each other. First, we have a system of price controls which for better than a year has held down the price of petroleum products in the United States while the prices of those products have risen in the free world market. Second, we have had an abrupt and substantial decrease in the supply of petroleum products available because of the embargo by the Arab nations. Thus, in order for the pricing system to perform its classic role of eliminating petroleum shortages by bringing supply and demand into balance, there would need to be a major increase in existing prices--first, in order to overcome the cumulative amounts by which controls have kept United States' prices below free market world prices, and, second, to reflect the major reduction in total supply caused by the embargo.

Our energy experts estimate that the supply of petroleum products will in the near term drop between 15 to 20 percent below the amount which would otherwise be consumed at existing prices. There seems to be general agreement that a great deal of the current consumption of petroleum products is not really necessary and that our citizens could, without major inconvenience, reduce their consumption significantly. The problem is how best to wring that nonessential consumption out of the economy.

Short Term Options

One option which moves in the direction of eliminating nonessential consumption is to make it inconvenient and difficult for people to obtain petroleum products, or simply to make some of them partially unavailable. Thus, the recommendation to close service stations on Sundays. Similarly, an allocation directive under which refineries would produce less gasoline and more fuel oil would inevitably reduce the consumption of gasoline, as we cannot consume that which does not exist. But it would also cause shortages of gasoline unless, through other measures, the present demand for gasoline is lessened.

A second option to deal with the shortage is rationing. Rationing does not really reduce the shortage, as there will still be more people who wish to buy more gasoline than the supply permits. It will simply make the shortage compulsory--individuals will not be permitted to buy as much as they would like. The appeal of rationing to its advocates appears to lie in the conviction that it would make everyone share equally and equitably in the shortage. If that were a fact, it would be an easy option. But in the real world, the requirements of individuals for petroleum products vary enormously and continuously, and no system of human decision making can cope with all of those variations, even if there were agreement on the criteria, which there is not. What seems fair to one man often seems unfair to another.

A third approach is to eliminate the shortage by permitting prices to rise until demand is reduced sufficiently to meet the supply. Such a price increase might or might not be accompanied by a tax, which I shall discuss in a moment.

Proponents of a price increase argue that even Congress cannot repeal the laws of supply and demand, and that the market is the fairest way to eliminate the shortage because it allows people individually to decide what is most important to them rather than leaving that decision to some government agency. One family might decide, for example, that it preferred to have less gasoline and more beefsteak; and another family might decide that it was willing to trade the extra beefsteak for a somewhat more expensive vacation. Each family could make its own choice and would not be bound by the decision of a rationing board that no one would be permitted enough gasoline for an extended vacation. A further argument for price increases is that they will tend to increase the supply of products. In the case of petroleum, a price increase will cause more wells to be drilled and will cause hitherto uneconomic wells and processes to become profitable and go into production.

Those who oppose permitting the market to eliminate the shortage argue that the price increase which would be required to bring supply and demand into balance would be so large that it would be a hardship on many people, and, further, that market forces may not operate rapidly enough to prevent critical shortages. For example, they suggest that the market might not operate rapidly enough to insure that households would have enough fuel this winter, or that certain businesses would not close down. A further complication arises from the impact of a major rise in petroleum prices on our price control system and the battle against inflation.

Before I turn to the subject of a price increase accompanied by an excise tax, let me call your attention to some data concerning the magnitude of price increases which might be required to bring us up to a free market price.

Table 1, which follows my statement, is an estimate of the price increases which would seem likely to occur if prices of petroleum products were freed. The assumptions on which the estimates are made appear on the notes which follow the table. Different economists will make somewhat different assumptions, and will, of course, get different answers. I cannot say they would be wrong. There is no way to predict numbers such as this with any precision, and I do not present the numbers to you as firm convictions, but only as an indication of the orders of magnitude in which we are talking, based upon what seem to be reasonable assumptions. You will note that Table 1 indicates somewhat lesser price increases in the longer term than in the shorter term. This is because many of the adaptations to increased prices will be made by people only over a longer period of time--e.g., we could expect higher prices to cause people to purchase smaller automobiles, but everyone will not convert immediately.

Table 2 shows the recent prices of gasoline in other countries compared to the United States' price. In evaluating those numbers, you should keep in mind that those prices must be paid by foreign workers out of real incomes which are in most cases substantially less than the income of workers in the United States.

Table 3 indicates how these numbers relate to the expenditures of a low income and an average income family. You will note that the expenses of gasoline are only a minor part of the total expense of owning an automobile and other transportation expenses. You will note further that retail prices for gasoline (excluding taxes) have in recent years diminished in relation to other prices, so that in a period of increasing prices, gasoline has become, in a sense, a bargain item.

Table 4 illustrates how a 25 cents increase in the price of gasoline might affect the budget of an average family.

Table 5 contains some illustrative prices and price changes of some common food items to provide some perspective as to what the price indicated in Table 1 amounts to in terms of recent food price increases.

Table 6 gives us some insight into the extent to which the cost of gasoline is an expense of getting to work. If gasoline should become more expensive, there would, of course, be many people who would minimize that expense by carpooling or by using public transportation.

146

Use of an Excise Tax

An option which has been the subject of recent public discussion is the imposition of an excise tax on crude petroleum or other petroleum products.

It is important to understand that an excise tax, such as an excise tax on crude oil or on gasoline, is in this context only a variation of the price increase option. The essence of the proposal is that prices to consumers be permitted to rise to the point where the shortage is eliminated by decreased demand. Some who argue that this would create a "windfall" for oil producers then argue for an excise tax to absorb that "windfall." That argument obviously leads to other arguments about what is and what is not a "windfall."

From the consumers' point of view, the result of the tax is simply a price increase. The price increase represents a greater percentage of income in the lower income classes than in the higher income classes, as do almost all increases in the prices of basic commodities. The price increase might be termed "regressive," although that term is not usually associated with a price increase. However, the effect of the excise tax is to take away the benefits of the price increase from those who own and produce oil. Since those persons are, generally speaking, in higher income categories, the tax is highly progressive. The imposition of an excise tax under these circumstances is to be distinguished from normal excise taxes, which are imposed on top of a free market price. In the latter case, the incidence of the tax is apt to fall on the consumer rather than the producer and is apt to be regressive in some degree.

In judging the desirability of enacting or not enacting an excise tax, the following arguments are often made.

<u>In favor of imposing an excise tax:</u>

- Permits some substitution of political judgments where it is believed that a free market won't respond quickly enough or in a satisfactory manner. It must be noted that this could also be achieved through mechanisms other than a tax, such as allocation.
- Eliminates alleged "windfall" profits. This, too, might be achieved by devices other than an excise tax.

<u>Against imposing an excise tax:</u>

- History suggests that it is almost impossible to make such a tax a temporary one.
- A tax takes away the incentive for increased supplies which is provided by increased profits, forcing more of the adjustment to be made in demand.
- A tax creates large additional revenues, with twin dangers that withdrawal of large amounts from the economy may be deflationary and that those revenues may not be sensibly used.

147

As indicated, it is possible to impose an excise tax on only a single product, say gasoline, and not on other petroleum products. If large enough, such a gasoline tax could bring supply and demand for all petroleum products into balance, although some increase in the price of other petroleum products would doubtless occur. In connection with proposals for imposing an excise tax on gasoline alone, the following arguments are often made:

Against imposing a tax on gasoline only:

- Puts the entire adjustment burden on one commodity, producing more severe dislocations than if the tax were distributed more widely. Smaller increases in more commodities are usually more acceptable.
- A gasoline tax has more impact at low income levels than a tax on crude. (But note that perhaps 40 percent of all families having after tax expenditures of $6,000 per year or less do not have cars and thus pay no gasoline taxes directly.)
- Provides no incentive to turn down thermostat, insulate the house, turn off lights (as the cost of electricity generated by oil increases), etc.
- A gasoline tax is highly visible, highly resented, and highly emotional.

In favor of imposing a tax on gasoline only:

. Satisfies those who believe private automobiles should be discouraged.

. The public generally acknowledges that much driving is discretionary. (But they also recognize the discretionary nature of other items.)

. Would require a very major price increase for gasoline and should, therefore, have a major psychological effect. One might expect a greater response to a large change in one commodity than to small changes in many, although such an expectation is not based on solid evidence.

. The case for a gasoline tax rests on the assumption that expenditures for gasoline are less essential than for other petroleum products, and that a heavy gasoline tax would have less impact on jobs and production than lesser taxes spread over more products.

But note: Some industries would be very hard hit by major cutbacks in gasoline. For example, motels and resorts, and the companies which build them, sell them furniture, food, etc., could be severely damaged. Another example: private aviation, the companies which lease planes and own airports, could be similarly affected. Many existing

14 8

airstrips might be converted to real estate subdivisions, with a permanent loss of airstrips to the communities.

Thus, a basic issue would be whether jobs and production would be adversely affected more by large cutbacks in gasoline, or by more modest cuts in a broader range of products.

In making judgments as to the desirability of any tax, additional questions to be considered would include the following:

- If the purpose of the tax were to absorb the "windfall" to producers, how would that "windfall" be measured?
- How would a tax be designed so that it would disappear when the "windfall" disappeared?
- How could the tax be designed so that it did not inhibit or render uneconomical activities which would enlarge the supply of petroleum products?
- How would the government deal with the very large excise tax revenues which would flow from a tax large enough to "clear the market"? That revenue might well be as much as \$20 to \$30 billion. Taking that much money out of the economy could be severely deflationary. Even if it were expended by the government for desirable projects, there could be a substantial lag between the time of tax collection and the time of revenue expenditure.

- Should some portion of tax revenues be rebated to consumers? If so, what kind of system would be required to dispense relatively small amounts to millions of families? Would the system have to make the same kind of decisions as a rationing system as to what families were entitled to what benefits?
- Would some other form of tax, say, an excess profits tax, be better suited to absorbing the "windfall" if it should be determined that a "windfall" exists? Would it be possible to devise an excess profits tax which would operate more satisfactorily than previous excess profit taxes, which were notorious for their complexity, inequity and inefficiency?

It should be apparent from the simple recital of these many considerations that the use of a tax or taxes to eliminate or ameliorate the present shortages is an extraordinarily complex matter, with major long range implications.

Long Term Considerations

In the long term, we must learn to accommodate to the laws of supply and demand. If energy resources grow scarcer, increased prices should provide an incentive to develop other sources of supply, and should render economic operations which are not presently profitable. Already, we are told, the prospect of higher prices has occasioned much greater exploration and development activity. Even in

149

the relatively near term, the experts foresee an increase in production from properties which have hitherto been uneconomic and from processes such as secondary recovery. At some point, processes such as production of petroleum from oil shale may become profitable and come on stream.

The tax law presently provides incentives to the discovery and production of petroleum through the provisions for percentage depletion and for the immediate write-off of intangible drilling costs. In April of this year, the Treasury presented to the Ways and Means Committee of the House proposals for tax change which would rechannel some of the incentive now provided by the percentage depletion provisions into a new tax credit for exploratory drilling. While the proposals in question were in part a response to certain "tax reform" goals, they were also intended to provide a more efficient incentive for the discovery of new reserves. Also included in the April proposals was a proposal which would lessen what seemed to the Treasury to be an undue tax benefit permitted under existing law with respect to foreign drilling. That proposal, if enacted, would tend to lessen the incentive to drill abroad.

We believe that those several proposals are timely and will be helpful in the search for new energy sources. However, the greatest incentive to energy development will continue in the future, as in the past, to be the prospect for profits provided by a free and efficient market. The opportunity for a taxpayer to save 5, 10, or 15 percent of his profits through tax benefits is of small moment if there are no profits in the first place.

While I have talked today almost exclusively about petroleum products, we are all aware that they are only a part of the total picture. In the search for other energy sources, as in the case of petroleum, however, the basic problems are not tax problems and are not susceptible of tax solutions. But we must remain alert to see that our tax laws do not inhibit solutions and to ensure that they are adapted, where appropriate within the context of the total tax system, to facilitate solutions. We shall be pleased to work with your committee to that end.

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150

Estimated Impact of Emergency Supply Restrictions on Retail Prices of Gasoline and Fuel Oil

Emergency Condition	Increase in Retail Gasoline and Fuel Oil Prices: Short Term	Long Term
Supply reduced by		
10%	+ 8¢/gal.	+ 5¢/gal.
15%	+12¢/gal.	+ 7¢/gal.
20%	+15¢/gal.	+10¢/gal.

Basic assumptions:

Current (Nov., 1973) consumption of crude and refinery products . . . . 6.4 billion bbls./yr.

Crude prices on which current refinery product prices are based:

Foreign crude . . . $6.50 bbl.
Domestic Crude. . . 4.15 bbl.
Average . . . . 4.60 bbl.

Retail prices: Gasoline . . . . .43 gal.
Fuel oil . . . . .22.4¢ gal.

Elasticity of supply relative increase in flow of oil in response to increase in price, is zero.

Elasticity of demand, relative decline in consumption of oil products in response to increase in price is:

- .143, short-term (1 yr.)
- .229, long-term (2 yrs. +)

Table 1

Average Retail Prices of Gasoline in
Selected European Cities, July 1973
(U.S. ¢/gallon)

Country	Service Station Price Excl. Tax	Tax	Service Station Price Incl. Tax
Hamburg, Germany	32.2¢	79.7¢	111.9¢
Rome, Italy*	22.9	76.3	99.2
LeHavre, France	26.7	76.2	102.9
Rotterdam, Netherlands	37.4	74.9	112.3
London, U.K.	27.8	48.2	76.0
United States	26.8	11.9	38.7

Gasoline prices were increased on September 30, making prices roughly $1.13 per gallon for regular grade and $1.19 per gallon for premium.

Table 2

151

Illustrative Expenditures
For a Family of Four

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The tables below show annual budgets for 4-person families,[1] one at an intermediate level of living, the other at a lower level of living, in 1971. These budgets were derived from Department of Labor publications.

	Intermediate Level: $ Amounts	Intermediate Level: % of After tax income
Total Budget	$10,971	-
Consumption	8,626	89.8
Food	2,532	26.4
Housing	2,638	27.4
Transportation (excluding gasoline)	734	7.6
Gasoline	230	2.4[2]
Clothing	1,196	12.5
Medical Care	612	6.4
Other	684	7.1
Other costs	560	5.8
Social Security and Disability Payments	419	4.4
Personal Income Taxes	1,366	-

	Lower Level: $ Amounts	Lower Level: % of After tax income
Total Budget	7,214	-
Consumption	5,841	88.7
Food	1,964	29.8
Housing	1,516	23.0
Transportation (excluding gasoline)	408	6.2
Gasoline	128	2.0[2]
Clothing	848	12.9
Medical Care	609	9.2
Other	368	5.6
Other costs	357	5.4
Social Security and Disability Payments	387	5.9
Personal Income Taxes	629	-

1. Weighted average for both owners and non-owners of automobiles.
2. In the 10 years since 1963, the general price level has increased by about 47% while the price of gasoline (excluding taxes) has only increased about 33%.

Table 3

ILLUSTRATION

Mr. T lives 10 miles from work and commutes each day by car. During each week, Mrs. T drives to and from the shopping center 2.5 miles from their home three times and makes 5 other trips of 5 miles each taking the children to piano lessons, etc. Mr. and Mrs. T go to the movies 2.5 miles from their home once, to and from the bowling alley 2.5 miles from their home once, and to and from church 2.5 miles from their home once each week. Mr. and Mrs. T also drive 1,500 miles on their vacation and 850 miles on other trips each year. Under these circumstances, if Mr. and Mrs. T's car gets 15 miles per gallon, the following additional amounts would be spent for gasoline if the prices were increased by $.25 per gallon.

Increased commuting cost per week	$ 1.64
Increased personal driving cost per week	.84
Total per week	$ 2.48
Increased cost of vacations and trips per year	$30.75

If Mr. and Mrs. T were to reduce their consumption by 25-30%, they might do so without severe problems as follows:

Carpool for commuting (sharing costs with one person)	$ .82
10% reduction in personal driving	.08
10% reduction in vacations and trips	3.08
Reduction in cost per week (excluding vacation and trips)	.90

Note #1--Only about 25% of the average car owner's expenses of operating his car are attributable to gasoline. Accordingly, a 100% increase in gasoline costs will only increase total car ownership expenses on the average by 20%.

152

Note #2--Mr. and Mrs. T may choose to spend the additional amounts on gasoline rather than reduce consumption. It is likely that Mr. and Mrs. T will choose to give up some gasoline for some things and will choose to give up some other things in exchange for gasoline (for example, a carton of cigarettes a week at $3.04 per carton, a six-pak of beer a week at $1.43 per six pak, or substitute 3 pounds of hamburger for 3 pounds of sirloin at a reduction of $3.00). With mandatory fuel rationing, Mr. and Mrs. T would not be able to make the substitutions which are the most satisfactory to them, the choice would be made for them by the government.

Note #3--Illustration is based on driving 10,000 miles per year, which is slightly above the national average based on Department of Transportation statistics for 1970. Lower income groups drive considerably fewer miles on an average.

Increase In Average Retail Prices
of Selected Food Commodities from
August 1972 to August 1973

Item	Retail Price 1972	Retail Price 1973	Percentage Increase
Steak	1.58	1.86	17.7
Chicken	.41	.92	124.4
Milk	.59	.65	10.2
Eggs	.51	.96	88.2
Bread	.25	.27	8.0
Pork Chops	1.26	1.99	57.9
Shrimp	1.18	1.38	16.9

Table 5

153

WHO COMMUTES TO WORK BY CAR

The table below indicates that few lower income workers commute to work by car. Given that lower income people reside in cities and other forms of transportation are available in cities, the percentages are not surprising. For families with incomes over $15,000, 81% commute to work by car while less than 20% of those families with incomes less than $3,000 commute by car.

Miles Driven Commuting by Money Income Class
Money Income ($ 000's)

Commuting miles/day	< .5	.5-1	1-2	2-3	3-4	4-5	5-7.5	7.5-10	10-15	>15	Average
0*	99.5	87	89	87	76	66	49	36	22	19	41.9
Less than 10	0	2	6	6	12	16	21	23	25	23	20.0
10-20	0	3	2	2	7	8	12	17	21	21	15.2
20-40	0	5	2	3	4	6	11	15	19	24	14.4
40 or more	.5	4	1	1	2	4	7	9	12	13	8.5

*Includes those who do not work.

Source: Survey Research Center, University of Michigan

Table 6

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

154

FOR RELEASE 6:30 P.M. November 28, 1973

RESULTS OF TREASURY'S OFFERING OF $3.0 BILLION TAX ANTICIPATION BILLS

Tenders for two series of Treasury Tax Anticipation bills, one series to be an additional issue of the bills dated November 1, 1973, and the other series to be dated December 3, 1973, were opened at the Federal Reserve Banks today. The details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	137-day bills maturing April 19, 1974		200-day bills maturing June 21, 1974	
	Price	Equivalent annual rate	Price	Equivalent annual rate
High	97.042 a/	7.773%	95.711	7.720%
Low	97.007	7.865%	95.611	7.900%
Average	97.020	7.831% 1/	95.671	7.792% 1/

a/ Excepting one tender of $250,000
Tenders at the low price for the 137-day bills were allotted 84%.
Tenders at the low price for the 200-day bills were allotted 21%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 39,350,000	$ 3,350,000	$ 102,265,000	$ 38,960,000
New York	1,572,385,000	677,185,000	1,962,915,000	1,229,915,000
Philadelphia	450,000	450,000	55,700,000	41,750,000
Cleveland	17,950,000	7,950,000	10,980,000	5,980,000
Richmond	13,850,000	5,850,000	12,830,000	7,830,000
Atlanta	14,200,000	2,950,000	22,260,000	22,260,000
Chicago	351,310,000	130,660,000	338,575,000	228,075,000
St. Louis	14,650,000	8,400,000	17,160,000	11,660,000
Minneapolis	304,530,000	67,315,000	257,030,000	226,130,000
Kansas City	44,365,000	22,765,000	43,115,000	33,035,000
Dallas	8,550,000	2,800,000	14,050,000	12,550,000
San Francisco	124,355,000	70,355,000	186,985,000	141,985,000
TOTALS	$2,505,945,000	$1,000,030,000 b/	$3,023,865,000	$2,000,130,000 c/

b/ Includes $ 81,945,000 noncompetitive tenders accepted at the average price.
c/ Includes $186,185,000 noncompetitive tenders accepted at the average price.
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 8.18% for the 137-day bills, and 8.23% for the 200-day bills.

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155

FOR IMMEDIATE RELEASE December 1, 1973

SUSPENSION OF ISSUANCE
OF UNITED STATES SAVINGS BONDS

The Treasury said today that it has sent the following instructions to the Department's 30,000 issuing agents for United States Savings Bonds:

"Because increase in debt ceiling has not been authorized, it is necessary to suspend issuance of Series E and H savings bonds until further notice.

"It is believed that authority will be granted shortly, making it possible to resume normal issuance of bonds. A short delay in issuance of bonds will not cause loss to purchasers or disruption of payroll savings plans because all bonds issued in December will earn interest from December 1, 1973.

"Should companies and others operating payroll savings plans inquire, they should be advised to continue withholding but to retain proceeds in special accounts; proceeds should not be remitted to FRB's or bonds issued until further notice.

"Applications may be accepted over the counter and on bond-a-month plans, but bonds may not be issued until further notice."

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

152

FOR IMMEDIATE RELEASE December 1, 1973

Treasury Actions with Respect to Debt Limit Delay

Secretary of the Treasury George P. Shultz expressed his deep concern today over the failure to achieve a timely extension of the temporary debt limit. As a result, the limit reverted last night to its permanent level of $400 billion, well below the actual outstanding debt of almost $465 billion.

The immediate practical effect is to prohibit new debt issues by the Treasury. If further prolonged, this situation will rapidly impair the ability of the Federal Government to maintain normal and necessary expenditures. However, all indebtedness incurred earlier under the authority provided by the temporary ceiling is unaffected.

Secretary Shultz announced a series of emergency steps by the Treasury to enable it to continue to finance Government operations without the issuance of new Treasury debt over the next few days.

. Notice has been sent to 30,000 issuing agents for Series E and H savings bonds instructing them to suspend temporarily the sale of such bonds, pending extension of the temporary debt ceiling. A short delay in the issuance of these bonds will not cause loss to purchasers or disruption of payroll savings plans because all bonds issued in the month of December will earn interest from December 1, 1973. The text of that notice is set out in a separate release.

- A total of $3 billion of Tax Anticipation Bills maturing in April and June of 1974 are scheduled for delivery on Monday, December 3, to successful bidders in an auction held on November 28. Bills in the same amount and the same maturity were issued by the Treasury on Friday, November 30, when the temporary ceiling was still in effect, to the Exchange Stabilization Fund, in exchange for an equivalent amount of special Treasury issues held by the Fund. If necessary, these bills will, in turn, be delivered on Monday, December 3, to the successful bidders in the November 28 auction, permitting the completion of the scheduled financing.

- Certain special Treasury securities held by foreign monetary authorities and scheduled to mature in coming days were advance refunded into new special issues on Friday, November 30, thus avoiding a potential cash drain.

- If an adequate temporary debt ceiling is not provided by Monday morning, the regular weekly auction of $4.3 billion of Treasury bills scheduled for Monday will be postponed. If feasible that auction will be held on Tuesday, December 4.

- In the absence of a Treasury bill auction, the Export-Import Bank will auction $1.8 billion of 3-month Export-Import Bank bills on Tuesday, December 4, for payment on Thursday, December 6. Proceeds of this sale will be used to pay outstanding Export-Import Bank indebtedness to the Treasury.

- Issuance of special obligations of the United States to Government trust funds (such as the social security trust funds) as a means of investing their receipts will be suspended until debt ceiling legislation is enacted.

157

Secretary Shultz added that lack of debt-limit legislation is also forcing the Treasury to intensively review prospective expenditures to determine the priorities among them.

These actions, in combination, will enable the Treasury to avoid issuing new debt while also assuring the flow of cash necessary to maintain Governmental operations for several days. Further delay in restoration of an adequate debt ceiling will require more drastic action, including delays in expenditures, to assure the continuing ability of the Treasury to meet maturing obligations and to maintain the credit of the United States unimpaired.

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NEWS

158

FOR IMMEDIATE RELEASE December 3, 1973

ANTIDUMPING INVESTIGATION INITIATED
ON TAPERED ROLLER BEARINGS FROM JAPAN

Assistant Secretary of the Treasury Edward L. Morgan announced today the initiation of an antidumping investigation on imports of tapered roller bearings from Japan.

Notice of this action will be published in the Federal Register of December 4, 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.

In the first half of 1973 imports of these tapered roller bearings from Japan amounted to $9.3 million.

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159

FOR IMMEDIATE RELEASE December 3, 1973

CALLS ON TAX AND LOAN ACCOUNT BALANCES

The Treasury today called its entire Tax and Loan Account balance held by depositary commercial banks as of Friday, November 30, for payment to its accounts at the Federal Reserve Banks. 100% of the payment by "C" banks is required tomorrow, December 4; 100% of the payment by "B" banks is required for Wednesday, December 5; and 100% of the payment by "A" banks is required on Thursday, December 6. Further calls of balances deposited in commercial banks after Friday, November 30 will be made under accelerated procedures on a daily basis.

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160

FOR IMMEDIATE RELEASE

December 3, 1973

WEEKLY TREASURY BILL AUCTION POSTPONED

The regular weekly auction of Treasury bills scheduled for 1:30 p.m. (EST) today will not be held due to the failure of the Congress to extend the temporary debt ceiling. A further announcement concerning the possibility of holding the auction tomorrow will be made later today.

The Export-Import Bank will, as indicated in a separate release, hold an auction tomorrow for $1.8 billion of 3-month discount notes, enabling the Bank to repay its outstanding indebtedness to the Treasury and thus providing some cash for maintaining governmental operations.

The $3 billion of April and June Tax Anticipation bills auctioned on November 28 will be delivered to successful bidders today, as scheduled. These bills were issued on Friday, November 30, to the Exchange Stabilization Fund for its temporary holding in exchange for special issues held by the Fund.

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171 Thelma file

Transcription of Tape Nov. 8 1973 Time Mag Housing Conf.

SECRETARY OF THE TREASURY GEORGE SHULTZ

U.S. Treasury Department

SECRETARY OF THE TREASURY GEORGE SHULTZ: ...I've had the pleasure of meeting with this group, I think [unintelligible]. The first time in particular we had a few bumps, but I have come to appreciate this annual opportunity to, in effect, talk with you, both in these formal sessions and around the informal gatherings, to put forward my ideas and to listen to yours. And I think it's the kind of occasion that's very good for people who work in government 'cause you do tend to be in a relatively confined environment. You're seeing pretty much the same people day after day and we work very hard and intensively, and I think it is good to get out and be exposed to others and hear what they have to say [unintelligible] chance to do that. And it's particularly good this year because I know that you're concerned about housing and you're concerned about interest rates and things like that.

The people who arranged the program were very kind to bring Secretary Lynn here to talk about housing and Secretary Simon here to talk about interest rates, so I'm not going to talk about those things. [Unintelligible]...somebody else's problems, but I will try to follow the script that has been laid out for me, and that is to try to describe the general setting, including the economic setting, as we project that, say, over the next year or so, and to the extent that you agree with that description [unintelligible].

Last year I presented -- and I made some notes that I used and . [unintelligible] and I dug them out the other day and I was looking at them not long before I came over here. Just in case somebody else remembered what I said, I would be one jump ahead of you. But in looking over those notes, I gave a generally very optimistic view of the period ahead, not just a year, but, let's say, four years or the general outlook over the next period. And I based that optimistic view on the fact, first of all, that the war was, in effect, over, and that would be a great burden off our backs, that with the school desegregation in the South, it was no longer true that we had a sort of isolated southern part of our country. We had great problems in civil rights and in school integration and so on, but it wasn't a southern problem, it was a national problem, and in the sense that issue had separated an important part of our country for many years no longer was true.

173

In terms of the economic picture, I projected, in terms of wages, relatively modest settlements based on the fact that real wages had risen and that therefore, even though we had a heavy collective bargaining calendar and many were predicting a series of strikes and very high settlements, that it didn't seem to me that that was in the cards, but we could look for relative moderation there, that the budget was under control and that we would be able to keep the budget under the $250 billion that had been set by the President as a goal, that we had rising employment and that -- and here you can laugh -- that the price performance we had had was relatively good and it seemed as though we had an excellent prospect of maintaining something along those lines.

Well, it has been an unhappy year, and I might sort of go back over these items briefly and then ask why it has been so unhappy 'cause I think in examining that -- and I have been thinking about it quite a lot -- we may see some glimmerings of the nature of our future, and I should preface this little statement, that I remain fundamentally optimistic.

Now, just going over these items that I have ticked off -- just ticked off as the basis of the [unintelligible] last year. Well, the war finally did get over. It certainly got over in an unhappy way, but it got over. We have a different kind of a war. We're not directly involved, at least with manpower, right now, but, at any rate, that has happened. The war in South Vietnam, at least our direct involvement in it, is over.

The [unintelligible] point remains true, and I think it's fundamentally a very healthy point that will gradually assert itself. The wage side of the picture has come out about as we [unintelligible]. The budget has been kept under control, although I want to speak about that in a little while in talking about the budget ahead, and we have had a very strong economy, perhaps too strong in the fourth quarter and first quarter -- the most recent fourth and first quarter. But it has settled down since then, and in terms of such a key indicator as employment, employment in the last year, the most recent month compared with one year ago, has risen by 3.3 million. That's a gigantic increase in the number of jobs, and, I might say, produced by the private sector. And anybody who wants to know how you really produce jobs in this economy and whether or not we should spend billions of dollars to produce a hundred thousand jobs, the so-called public service jobs, ought to ponder that number, and we see where the jobs come from, and I think, among other things, just as an aside, those who say that a free capitalistic economy in order to be fully employed has to have a war, has to have rising military expenditures, well, this period, at least, shows that that just ain't so, and we can achieve this kind of performance without those kinds of expenditures. So we have had this rise in employment.

Our price performance has been poor, and that, of course, has troubled people, but I don't think, as I'm going to develop in a moment, that it's really just the price performance that has troubled people. It has been, I think, a feeling, not just that we've had inflation, but somehow or other, it's out of control. That's what has bothered us, and so I think we want to examine and look at that in the sense in which things are out of control or not and what tends to bring them back under control.

I did identify last time that the food area would be a tough area for us in terms of prices, health, construction, regulated industries. The energy problem we, I think, all knew about, but didn't appreciate, particularly the most recent turn of that screw and its great implications. But I think on the price -- for the most part the things that led me to be optimistic last year have come to pass [unintelligible] except for the inflation point, and I've indicated what I think is the true significance of that.

Now, it has been an unhappy year and we have got to the point where it's almost as though unhappiness is a way of life. It is impossible for anybody to be happy. When the most recent employment figures came out, which I've just referred to and where the unemployment rate was down to 4 1/2%, which, if you took the same composition of the labor force as, say, in the middle-50s or so would be under 4%, so it's a very strong picture.

Herb Stein, the Chairman of the Counsel of Economic Advisers, felt compelled to get up to say, "Yeah, unemployment went down, but, gee, that shows that we have a very strong economy and inflation is going to be more difficult as a result."

And when we find two consecutive months of decline in the wholesale price index, it is necessary to say that, of course, this is only because food prices are coming down and, of course, we don't care about that, and energy prices have gone up and we have a terrible price picture before us. In other words, we cannot permit ourselves to have good news anymore. It has to be interpreted as bad, and if you say why do we do that? Well [unintelligible] this overriding concern that everyone seems to feel right now that we must be credible and the only way to be credible is to be downcast, and so if we say that the unemployment figure went down, but that's bad, that adds to our credibility, so that sometime when something is really bad, it will -- if we feel constrained to say well, it really isn't quite that bad, somebody might believe us. But the credibility business has become a very big thing.

Now let me go back and try to develop this point on happiness. Why are people unhappy or why do we have this sense of unease? And I'm not going to talk about the Watergate problem, although I'll be glad to respond to questions about it, to the extent that I know anything about it, and I do want to have something to say about government towards the end of my remarks. [Unintelligible]

I want to advance the thesis to you that over the past decade and particularly over the pas four or five years, we have been in a -- we have come into an unusual period in which important area after important area we have more or less cast loose from moorings that have represented beliefs that we were held and which were, in a sense, unarguable. It was just something that we thought and you didn't argue about it. You just accepted it, and it provided a mooring from which we were able to go and engage in argument and on which you based your plans and went on from there. We have cast off a very large number of these old moorings, and we have not yet found new ones. So I think this has left us with a sense of unease. These accepted truths aren't accepted anymore, so we don't have new accepted truths and we know that a society can be adrift for a while, but not too long. We have to have some myths to live by, and we hope the myths or the generalizations or whatever you want to call them are fundamentally realistic and right.

Now let me go down the list of things in which, it seems to me, we have cast off from the old moorings, but we haven't found new ones yet. We haven't found a new balance, a new compromise that we're willing to live with for a period of time and go on to other things from.

We've had a revolution in international problems. Not very long ago we knew what to think about the Chinese and the Russians and all of the Eastern World. We knew that whatever they did, we had to counter it. We had automatic responses to everything, and they were in a certain position with respect to our own views that was strongly held and gave us a mooring. We didn't have to think about it at all. We didn't have to try to get along with people whose society we didn't like and who certainly are in competition with us. I'm not saying we should [unintelligible], but we have been moving to a different era in which we say, oh, we're not going to be so automatic about that and we are going to try to get along. We're going to try to have some form of interaction with another society that has the power to destroy us, as we have the power to destroy them. We'd better do that at some point, or the old mooring, which was that we just let that situation sit there and somehow hope that we wouldn't blow each other up, that wasn't good enough. We should make a try. Well, that's a big step for a society. It's very hard to change your view, and particularly so because there're going to be traumatic events, such as the Middle East war, such as the fact that sales of wheat remind us that exports are a cost to our economy, and so on. So we've had this belief. What the new compromise or generalization be, we haven't found yet. We're struggling to it, and in the meantime, we can't be so automatic, and I think it gives people a little feeling that we're not sure.

Take the field of international monetary arrangements, which is, people have come to realize, more important in their daily lives than they had thought. For a quarter of a century we had the view that there was an immutable fixed relationship between gold and the dollar, and everything revolved around that. That just was the way the world worked. You didn't think about it at all. You didn't have to think about it. It was there. It became increasingly unrealistic, beginning in the early 1960s, and it was patched up and patched over and what not, but by the time we got to 1970 or so, it was clear that the old mooring didn't work anymore and we had to cut the rope to that mooring and then we have some new international monetary arrangement, or set of rules, that will work for us. We are moving in that direction. We have constructed a more free market system for setting exchange rates than we have before, but we don't have the assurance of an agreed and well-understood international monetary system to go by that we had before. We don't have the new compromise, the new arrangement, the new myth that we can put in place and just leave there and go on to other things, and it's a matter of central importance in international economic dealings.

We see ourselves now much more interdependent with the rest of the world. I think most Americans have felt that international trade is a sort of a luxury, that we give the world a break by trading with them and we buy some foreign cars and [unintelligible], Scandinavian [unintelligible], furniture. We think it's all right. And draw in some raw materials and sell some stuff, but it really isn't a central feature in our economy, and we can easily prove that to ourselves by showing that exports amount to what, 4 or 5% of GNP, or something like that. But we have seen this year how we are now interconnected with the rest of the world and it isn't a plaything. It isn't simply because our trade -- our exports amount to over $60 billion worth because in our size of economy, that's really not all that much. But it's because it hits materials that are strategic to us -- food, energy, raw materials -- and we have had this forced to our attention by virtue of the fact that with the boom all around the world, the prices of all these things have risen dramatically, and we're paying just like everybody else is, and it is clear that it's very difficult for us to avoid it.

So that adds to this feeling that somehow or other things are different than the good old days, and yet we don't have a clear understanding of how we're going to bring this situation under control, and suppose right now, of course, the energy problem is particularly to the fore in this respect.

Take the area of civil rights. For a long period in our history we got along with the view that everybody should have equal opportunity and so on and we talked about it, but we didn't do anything about it. And beginning in the late 1950s and through the '60s, and powerfully so in the late '60s, we, in one way or another, forced ourselves to do something about it. The situation, with all of the turmoil and the difficulty, the situation is very different right now than it was twenty years ago, and yet I don't think anyone here would say we're at the end of that road. We have now achieved any kind of a new, accepted synthesis, compromise or way of looking at that problem that we think is lasting, although

I believe myself we have made a lot of progress and we are getting there, but that is something that is deep in our society, it's troubling everybody, and where we have cast from old mooring and we said it isn't satisfactory. We're not going to be cynical and just kid ourselves. We are going to have to face up to this issue.

Similarly with the environment, we didn't pay any attention to it for a long time, except in conserving our natural resources and the beauties of the West and so forth, and that was considered essentially what you did about the environment, and it was fairly easy for us to do that. But the idea that we're going to really have to change the quality of water in our streams, in our lakes and our surrounding oceans, the quality of air in our cities and so on, that's new. And, of course, like most movements in the United States, it comes on strong, it articulates itself in probably quite extreme form, and thereby creates a dramatic issue, so we had an old mooring, so to speak, of -- I don't know whether to call it a mooring or not. We didn't pay much attention. And now we have a new situation and people have a feeling it's out of control and we don't know where it's leading us because we have all of this dicta laid down. We can't do this and we can't do that. And, on the other hand, if we can't do anything, how are we going to possibly do other things [unintelligible]. And we know we have to find some sort of new synthesis, a new balance in [unintelligible]. We haven't found it yet.

In the wage-price area, I have never departed from my old moorings. I believe in the free market system, and I always will. But most people have. They think that there's something wrong with the free market system, that it stood us in good stead for a long while, but nowadays [unintelligible]...dominate and changes everything around, and with all these bigs around that somehow the old system doesn't work anymore and we have to now manage the wage-and-price system in a different way than before. We're struggling with this problem. John, who is not here because he's struggling with this problem in the form of a hospital strike in New York for wages that are way beyond anybody's idea of reasonable standards which the Cost of Living Council is putting its foot down on, and so there's a strike against the system [unintelligible] coming in a hospital, and that's very dramatic, and so he's trying to work it out, but that's just a little [unintelligible] example.

I think we are searching for new moorings and I think this comes very much into the picture for housing and for the particulars of your own environment. We're searching for new moorings involving the relationships between the federal government, state and local governments, and the private sector. And there is, at least now, a renewed debate about the importance of a redistribution of power, with more emphasis placed on state and local government, but that hasn't been worked out, and we see all sorts of implications

178

stemming from it that amount to raids on the federal treasury. Governments -- state and local governments can get the Congress to pass a bill under which the federal government reimburses localities for sewer systems that they already have built, and you've got a problem. But that's another area.

Well, my general point is that all of these things I've mentioned are deep and fundamental aspects of our society and how it works, and our economy and how it works, and with respect to them, we have accepted beliefs or ways of doing things that were taken for granted, and on the basis of those accepted things, we went on and conducted our business. And now all of these fundamentals have been loosened up and we haven't yet found the new mooring, the new compromise that we need.

Now, you must think, how can I be -- have said that I'm fundamentally optimistic, having given this kind of an outline, and I would say that just as you can describe these things as problems, I think they illustrate a good sense of reality and they present us with opportunities for creative work, for describing ourselves as being in a time, more than most, where fresh, new, creative, energetic work can produce something that moves us to a higher plateau of operation for our society and establishes things that once established will do us for another quarter century or so, and I think once we kind of get this spirit, perhaps we will change in our unhappiness and come to feel that this does not represent society out of control, it represents society examining itself realistically and working to move toward new forms of control from which we can take appropriate reassurance. And I even dare to think that the energy problem that we have and the fact that our presumed friends in the Arab world have pulled the plug on us in the very clear way that they have may be a blessing in disguise. After all, we're not very dependent on them yet. If they had given us another four years of sleepy indulgence, we would certainly have been not as dependent as Western Europe and Japan, but well along the way, and [unintelligible] for us. So at this point, we can draw in our belts; we can identify things that we must do, and we have it in our power to get control of this problem again for society, as I believe we do in all of the other problems that I've outlined.

Now, against those broad and very general statements, let me make a few comments about the economy, the budget and inflation, at least as I see it in the next year or so.

First of all, it seems to me, we do have a reasonable prospect of a so-called soft landing in the economy. We had an extraordinary rate of growth in the early part of the year, but we have that settle down to a little better than 3% real growth rate since. We know that that is not based by any means, altogether, on a diminution of demand [unintelligible] is a reflection of a considerable part of that, that operating at capacity, we're not able to surge ahead so fast. But nevertheless, there is a settling down here, and I think that though there are weaknesses in the economy, and, unfortunately for this conference, you're more conscious of one of them than even most people are, and I think the auto sector is quite weak. At the same time, there are great sources of strength in the economy that, from all the indications we can get, will move in that -- will continue to move in that direction for the next year, and so I think that we do have a reasonable chance for a soft landing.

How this energy problem will impact that, at least in the government, we're still struggling with that question, and we're not ready to try to put forward a confident anwer of it, and, obviously, that will be a problem.

On the inflation side, obviously, we have a continuing difficult time ahead of us, but we do have two things, I think, that we are working at and I want to explain them because I think they are clearly of great importance in this inflation area, first the budget and second the controls.

On the side of the budget, despite the skepticism -- and I think there was a fair amount of it voiced here last year, as I remember Charles Schlultze scoffing at our chances of having a $250 billion '73 budget, and that was the general view, I think. It turned out that we had a $246 billion outlay, so it was possible to control that budget. Right now, we have a budget that we have said can be balanced in the neighborhood of $270 billion, and we have also said that we think the 270 is on the high side of the probability range as far as receipts are concerned, and on the low side of the probability range as far as outlays are concerned, so that it's possible to do it. It's going to take a lot of work to do it, but, as contrasted with the late 1960s when as the economy moved forward strongly into full employment, the budget went totally out of control, at this point in time it is much more close to control.

Now, there are all sorts of threats to the budget. Most of them are in areas that lead you to numbers like one-two-three billion dollars so that you struggle with these threats and you say well, maybe we'll have a budget of 273 billion instead of 270, or something like that, and, of course, looking at it from the standpoint of the economy, three billion dollars in a size of the economy we have is not that gigantic a number. Nevertheless, we think it's important to try to get a balance. In a sense, maybe that's an old mooring, that we don't want to enshrine as something we should always do, but we certainly identify a time when we sometimes ought to balance the budget, and this is one when we ought to do it if we can.

I think the biggest threat to the budget, however, is no so much in terms of what happens to this or that or the other

180

item in the domestic budget, the domestic side of the budget, but rather what happens on the side of the defense budget, and here, as you know, most people who analyze the budget have felt that the President's proposals would be cut on the order of, say, three billion dollars, and they have game-planned their own projections in those terms. Well, I think that possibility has become more dim. In addition, we have the supplemental that has been sent up, 2.2 billion, as a result of the Mideast war, and that is still a very tenuous situation, as we all know, and may result in higher numbers very quickly. It just depends on how successful holding that situation turns out to be. And we also, having cast off the old mooring and tried to established at least a little bit of an opening that goes by the word of detente, we really don't know yet whether all of this will come out as being seen as strengthening detente or destroying it. And there are many who want to destory it. They like the old myth and the old way. But if it is destroyed or if we lose our ability to have any confidence in it, then I think we must face up to very large increases in the defense budget. It is insane to say that we have to follow a policy that does not hold out the prospect of working to get this mutually down, and at the same time not have our own defense budget super-strong, and, of course, if that becomes the thing that we must do, then the numbers we're talking about are very large.

Now, all I can say in terms of the balanced budget, that is, coming back and looking at it on the side of the economy, all I can say on that is that we are very alert to that problem and we are examining it every week and we are in close touch with the Defense Department. Jim Schlesinger, the Secretary of Defense, was one of my fellows working with me when I was in the Director of the Budget, and he knows about budgets, and he understands why it is important for the people worrying about economic policy to know quickly if we're going to have a big change in the defense picture. So if we get this kind of surge on the side of defense, then we will have to make a change in our fiscal policy and we'll have to raise the money to pay for it and we'll have to move promptly, and I hope -- I know we'll be able to recommend promptly, and I think the Congress will probably respond. So, on the side of the budget, and I think it is a key in the fight against inflation, we have reasonable control.

On the controls itself, let me just stress very briefly our philosophy of decontrol. It goes like this. First, we must put in place, with the decision on Phase IV, a strong and well-articulated into the parts of the economy that it covers, a well-articulated set of regulations, and we must arrange ourselves to administer them well. And I think that with all of the trials and tribulations, with John's good work, we have a strong set of regulations out there. We've got lots of comments and the benefit of people's advice, and that has all been put into place, and we have a structure of administration, using the Internal Revenue Service's field offices all over the country for a decentralized

181

structure of administration. We've had a good information system that to some extent scares me. That is, I don't like to see us learn how to do this too well, and I also note that the things that you complain about, that is, inefficiency in processing applications and so forth, they are the heart of the control process -- the bureaucratic delay, red tape, one thing and another -- that what that does is it delays price increases, and that's all controls ultimately do. They hold things back a little bit and gradually the prices do come up, but you do delay. So the first thing is to have a controls program in place to decontrol, but to give it credibility and to make it strong and to work at hard, as we do.

Now then, on the decontrol side, we are trying to peel it off and we are working for that [unintelligible]. It is a hard process. It's hard because the economy interacts with itself so intimately, so when you decontrol one industry, you have impacts on lots of other industries, and that doesn't mean you can't do it, but it means that you have to think it over carefully and try to see what you're doing. For instance, when we found -- we knew we had to decontrol fertilizer, that meant that you also had to decontrol explosives, and it probably wouldn't occur to you unless you tried to trace that through. But just as you need the fertilizer for the farm, you need the explosives for the coal mines and so on. So there are these repercussions.

We are peeling it off. We've decontrolled lumber, as you know, and that has worked to a degree, and we will decontrol others, piece by piece. But beyond that is the more general decontrol, and here, as we are thinking about it, there are two classes to balance the one against the other. On the one hand, there is the understanding in the body politic of the not only what can be accomplished through the controls, but also the limitations of control and the downside, the things that you do that damage you by controls. And we think that there is growing public understanding of this dimension of the problem. It may be appalling to see that 33% of the people, according to the polls, anyway, think that we should have a complete freeze on everything. That's appalling that that many people think that. However, four or five months ago, two-thirds of the people thought that, so that's progress.

And business and labor have become less enchanted with controls. [Unintelligible] and I would have to say to you the second freeze was something that I opposed with all my might and [unintelligible], and I argued very strongly, as some who are here know, that it would be a disaster and we shouldn't do it and so on. And I now have to say in restrospect that I think it was the greatest idea to come along in the whole control period because it was so bad that everybody could see it. A moron could see what we were doing to ourselves and see the downside of controls. And God bless that fellow that ground those chickens. I don't know

182

who that was, but it was very dramatic. But as somebody in the Wall Street Journal noted, though they didn't get it right, people like me learned new words like piggy -- they said piggy hog. They didn't get it right. That's not what the word -- the word is piggy sow. And you know that when the sows are coming in to be slaughtered and they're pregnant, that you're creating a problem for yourself six and eight months ahead on that particular commodity and we'd better stop and let the prices go up and let people see some reasonable rate of return in prospect.

So there has been an educational process and people, I think, do have a better understanding. So that is one dimension. And you might say that you can predict when you take controls off, if they have been suppressing inflaton, there will be a surge, and the better the public understanding of why that is and what benefits it may give you, really, the more of a surge will be tolerated. So, in a sense, if you can raise the level of public understanding and you can, by how the economy is operating and various other things I want to mention, bring down the potential surge to the point where you can see these things as sort of compatible with each other, then you can decontrol. And if you try to decontrol too soon and you get a gigantic surge that people won't tolerate, all that will happen to you is [unintelligible]. You'll just be thrown right back into an even more fierce form of control. So that is the strategic concept that we're working with in trying to move ourselves toward a period when we can decontrol.

Now finally -- Bill Simon saw my notes and he said you've got a three-hour speech there. It's not that bad, but I'm embarrassed to see how long I'm talking [unintelligible]. Let me just say a word about government. Our government is in trouble and it is having real difficulties. And the question is -- or, one question is: Well, what do we do about it? Those of us who are working in government and those of you are working with government or in your own way. And the second question is: How able is the society? [end of recording]

FOR IMMEDIATE RELEASE December 3, 1973

TREASURY RESUMES NORMAL DEBT OPERATIONS

In the light of the action by the Senate this afternoon in concurring in a new temporary debt limit, the Treasury will resume normal debt operations.

1. The regular weekly Treasury bill auction postponed today will be held tomorrow, Tuesday, December 4. Bids for $4.3 billion of 3 and 6-month bills will be received at 1:30 PM EST at Federal Reserve Banks and branches in the usual manner, for payment on Thursday, December 6.

2. The Export-Import Bank has cancelled its sale of discount notes announced this morning for tomorrow.

3. Issuing agents are being instructed to resume the sale of savings bonds. These bonds will be dated December 1, 1973.

4. Special Treasury securities will be issued to the government trust funds in the normal manner.

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185

FOR IMMEDIATE RELEASE

December 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 December 13, 1973, in the amount of $4,292,305,000 as follows:

91-day bills (to maturity date) to be issued December 13, 1973, in the amount of $2,500,000,000, or thereabouts, representing an additional amount of bills dated September 13, 1973, and to mature March 14, 1974 (CUSIP No. 912793 TC0) originally issued in the amount of $1,802,275,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,800,000,000, or thereabouts, to be dated December 13, 1973, and to mature June 13, 1974 (CUSIP No. 912793 TR7).

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, December 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 **December 13, 1973**, in cash or other immediately available funds or in a like face amount of Treasury bills maturing **December 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.

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

186

FOR IMMEDIATE RELEASE December 4, 1973

TREASURY ISSUES COUNTERVAILING DUTY
PROCEEDING NOTICE ON DIE PRESSES FROM ITALY

The Treasury Department announced today the issuance of a countervailing duty proceeding notice covering die presses from Italy.

The notice states that the Treasury Department has received information which appears to indicate that the Government of Italy makes certain payments, bestowals, rebates, or refunds upon the manufacture, production, or exportation of die presses, which constitute the payment or bestowal of a "bounty or grant" within the meaning of the United States Countervailing Duty Law. If Treasury finds that a bounty or grant has been paid or bestowed, the imports in question would be subject to an additional (countervailing) duty equivalent to the net amount of the bounty or grant.

The notice invites submission of comments in time to be received within 30 days from the date of publication in the Federal Register. It is scheduled to be published on Wednesday, December 5, 1973.

If the Treasury Department finds that bounties or grants are being paid or bestowed within the meaning of the Countervailing Duty Law, it will issue a Countervailing Duty Order proclaiming the amount of countervailing duties to be issued on imports of die presses from Italy. The countervailing duty would become effective 30 days after publication of the Order in the Customs Bulletin.

During the period October 1972-April 1973, imports of die presses from Italy were approximately $300,000.

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WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

187

FOR IMMEDIATE RELEASE December 4, 1973

UNITED STATES AND ROMANIA SIGN INCOME TAX TREATY

The Treasury Department today announced the signing of an income tax treaty between the United States and the Socialist Republic of Romania. The treaty was signed in Washington, D.C., by Secretary of the Treasury George P. Shultz and by Vice-President of the Council of Ministers and President of the State Planning Committee of Romania, Manea Manescu.

The tax convention seeks to promote economic and cultural relations between the two countries by removing tax barriers to the flow of investment and individuals.

The new treaty is similar to recent U.S. tax conventions with European countries. It incorporates the same basic principles with respect to the taxation of business income, personal service income and income from investments, and similar provisions for reciprocal administrative cooperation. It also assures non-discriminatory tax treatment. Citizens and permanent establishments of residents of one nation may not be subject to more burdensome taxation in the other nation than that nation's

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own nationals and businesses.

Under the new U.S.-Romania tax treaty, each country agrees to reduce its withholding taxes on interest and cultural royalties derived by residents of the other country to not more than 10 percent, except that interest paid to the other government or on loans granted by or guaranteed by a government instrumentality will be exempt from tax at the source. The maximum rate on industrial royalties will be 15 percent.

In addition, the treaty provides for a reciprocal withholding rate of not more than 10 percent on dividends. This maintains the present Romanian statutory rate, which in combination with their corporate tax on mixed corporations (now 30 percent) is within the limits of the U.S. foreign tax credit. Equipment rentals will no longer be subject to the Romanian withholding tax of 20 percent, but will be subject to tax only if connected with a Romanian office (permanent establishment).

The new tax treaty also provides that performers covered by a specific cultural exchange arrangement will be exempt from tax in the host country, while other performers will be exempt from tax if they remain less than three months and earn less than $3,000.

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18

The tax convention is subject to approval by the U.S. Senate. It would take effect as of January 1, 1974, and would remain in force for a minimum of five years. It then would continue in force indefinitely, unless terminated by either nation.

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S-335

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WASHINGTON, D.C. 20220 TELEPHONE W04-2041

189

R RELEASE 6:30 P.M. December 4, 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 December 6, 1973, were ened at the Federal Reserve Banks today. The details are as follows:

NGE OF ACCEPTED MPETITIVE BIDS:	13-week bills maturing March 7, 1974		:	26-week bills maturing June 6, 1974	
	Price	Equivalent annual rate	:	Price	Equivalent annual rate
High	98.175	7.220%	:	96.134 a/	7.647%
Low	98.122	7.429%	:	96.056	7.801%
Average	98.140	7.358% 1/	:	96.074	7.766% 1/

a/ Excepting 1 tender of $10,000

Tenders at the low price for the 13-week bills were allotted 22%.
Tenders at the low price for the 26-week bills were allotted 33%.

TAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 47,680,000	$ 36,930,000	:	$ 18,835,000	$ 8,835,000
New York	2,897,170,000	1,929,670,000	:	2,462,025,000	1,468,625,000
Philadelphia	47,395,000	47,395,000	:	7,855,000	7,855,000
Cleveland	41,445,000	41,445,000	:	23,250,000	17,950,000
Richmond	20,200,000	20,200,000	:	30,100,000	21,100,000
Atlanta	27,230,000	27,230,000	:	18,050,000	15,650,000
Chicago	239,555,000	180,655,000	:	271,580,000	127,360,000
St. Louis	54,365,000	51,865,000	:	49,425,000	30,925,000
Minneapolis	50,130,000	50,130,000	:	25,510,000	19,510,000
Kansas City	29,850,000	29,850,000	:	24,835,000	17,635,000
Dallas	39,640,000	33,640,000	:	43,035,000	27,365,000
San Francisco	92,155,000	51,155,000	:	122,590,000	37,230,000
TOTALS	$3,586,815,000	$2,500,165,000 b/		$3,097,090,000	$1,800,040,000 c/

b/ Includes $335,380,000 noncompetitive tenders accepted at the average price.
c/ Includes $161,470,000 noncompetitive tenders accepted at the average price.
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 7.60% for the 13-week bills, and 8.20 % for the 26-week bills.

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

/90

FOR IMMEDIATE RELEASE TUESDAY, DECEMBER 4, 1973

STATEMENT BY THE HONORABLE WILLIAM E. SIMON
DEPUTY SECRETARY OF THE TREASURY
ON FEDERAL ENERGY ADMINISTRATION
AND ENERGY POLICY
TUESDAY, DECEMBER 4, 1973

You have been given a fact sheet explaining the new Federal Energy Administration and I will be glad to discuss any aspects of the organization with you. However, I think it is important to outline for you where we have been with respect to energy policy, where we are, and where we plan to go from here. Traditionally, energy policy has been narrowly defined as a national security issue. However, 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. Seen in this way, energy policy bears a direct relation to economic conditions and is essential to understanding how our economy functions.

Where We Have Been

Before explaining where we are in light of the Arab nations' embargo and how we feel it can be overcome, I think it is important to outline how we allowed ourselves to reach a point where such action by the Arabs would affect us this way.

The first thing to understand is that the demand for energy has been increasing continually while our supply has not. With six percent of the world's population, we are consuming 33 percent of the world's energy. Furthermore, the demand for energy in this country is growing at an annual rate of about four percent and by 1990, our energy needs will have doubled that of 1973. Much of this increase in demand will be reflected in an increase in the demand for oil, which has grown, in part, because there has been a shift away from coal to oil and, in part, because of the inability to obtain natural gas, another alternative to oil. Domestic demand for oil has increased from 15.1 million barrels a day in 1971 to 18 million this year and will increase to about 21 million in 1975 and to approximately 25 million in 1980. Oil and gas now account for about 65 percent of the world energy consumption and 78 percent of U.S. energy consumption.

In the face of this increasing demand, however, our domestic petroleum industry has not been expanding:

-- Domestic production last year began a slow decline to which no early end was foreseen, even though virtually all of our wells were producing at 100 percent of capacity for the first time in history.

-- U.S. refining capacity actually decreased by 11,000 barrels per day in 1972 even though the demand grew by over one million barrels per day. Prior to the President's energy message on April 18th, no new refineri

/91

were under construction. Furthermore, expansion of existing refineries had nearly ceased. Growth in the capacity of the industry had come to an end for a number of reasons, including environmental restrictions which made it difficult to find acceptable sites for new refineries; oil import restrictions which created uncertainty about supplies of crude oil; and tax and other economic benefits which made it more profitable to invest abroad than in the United States.

As a result of these developments, oil imports rose dramatically in order to meet growing U.S. demand, and much of the new import supply came from the Middle East. Now it is 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. It is for this reason that we are vulnerable to an Arab nations' boycott, but let's briefly review some facts about the current shortage:

(1) Roughly 85 percent of the energy consumed in the U.S. is available from domestic sources.

(2) About half of U.S. energy requirements come from oil.

(3) The impact of the Arab boycott is expected to be a shortfall of about 7.5 percent of total U.S. oil requirements for the fourth quarter of 1973

and about 17.3 percent for the first quarter of 1974.

This magnitude of shortage need not lead to despair concerning its impact on the economy as timely conservation and other measures are put into place. I do recognize that the impact of the shortage would differ throughout the economy because some industries, like transportation, exclusively utilize petroleum or its products; and, in others, possibilities of substitution of energy sources are limited.

However, our studies show that conservation measures affecting gasoline, heating oil and electricity could meet much of this deficit. Along these lines, the President recently announced a number of conservation steps. Among other things, he has asked that retail sales of gasoline be stopped on Sundays; he has proposed a mandatory gasoline allocation program covering wholesale and retail sales; he has asked refineries to reduce gasoline deliveries to wholesalers and retailers; he has asked for a voluntary 50 m.p.h. speed limit for automobiles and a 55 m.p.h. limit for buses and trucks, which will become mandatory as soon as Congress passes emergency energy legislation; and he has proposed to ban promotional, display and ornamental lighting by commercial establishments once legislative authority is granted. I believe these actions will produce results. They are the first steps but many other measures must be taken.

It is obvious that we have been a nation of great energy wastrels. As I mentioned earlier with 6 percent of the world's population, we consume over one-third of the world's energy and obviously there is a lot of waste in that consumption. We have been accustomed to an overabundance of cheap energy. That day has ended. We must change our lifestyles and be more thoughtful. Simply put, this country now faces the choice between comfort and convenience, or jobs. Are we willing to put on a sweater and get on with the job of making this a better country for all our citizens, or will we selfishly prefer our own comforts and past lifestyles?

We have just completed a conservation study that showed we could save three million barrels per day with limited economic dislocation. Thus, conservation measures can offset the potential shortfall. For this reason, I do not accept dire forecasts that industry will bear the full burden of the shortfall. There's no question that industries will have to improve the efficiency of their energy utilization; but our main thrust will be to get the consumer to save, so that there will be the least possible effect in industrial production and employment.

Where We Will Go

Everyone is now asking how this will be done. We have both short-term and long-term action that must and will be taken. In addition to steps already taken, we will take whatever actions that are necessary including:

14L

(1) Gasoline consumption must be decreased. This may require some combination of gasoline price increases, taxes and rationing, as well as voluntary and mandatory conservation measures.

(2) We must further reduce residential and commercial energy use. Large fuel reductions can be made in these areas without causing job reductions or loss in industrial output. This will require some price increases or taxes on natural gas and electricity, in addition to the allocation program on home heating fuel.

(3) We will shift refinery output to increase supplies of fuel oils and vital petrochemical feedstocks. Later this week we will be announcing price increases to stimulate refinery shifts.

(4) We are exploring plans to convert commercial airlines from kerosene to naphtha based jet fuel. This will increase the supplies of critically short distillate stocks.

(5) We are strengthening the mandatory allocation program. Last night, for example, we dispatched a team of management professionals to <u>increase</u> the strength of the regional offices.

(6) We are pressing forward to switch twenty-six utility plants from oil to coal.

(7) We are urging States to increase the maximum efficiency rate of production on oil wells.

193

It is essential that these immediate actions be consistent with our long-term policy. We will take actions which will work towards giving us the ability to be self-sufficient in energy. This goal has two equally important components. First, we must reduce the rate of growth in our energy demand. Second, we must increase our domestic supply of energy. In so doing, we must reach a compatibility between our energy needs and environmental requirements. However, we can no longer delay development of our domestic energy resources. For example, we will push for the development of Naval Petroleum Reserve #4, the building of a second Alaska pipeline, speeding construction of nuclear plants, and other energy facilities, including coal supplies.

In closing, I would emphasize the importance of the Federal Energy Administration which the President has created today. It will provide us with the necessary framework to take needed actions. A major problem in dealing with energy matters has been the fact that too many energy-related responsibilities have been dispersed throughout the government. The Federal Energy Administration will pull all those elements together in one unified body, thus enabling us to act on energy policy immediately. We will be pursuing a number of interrelated goals:

(1) We will seek to minimize the economic impact of the energy shortage through conservation of energy by the consumer and more efficient utilization of energy by industry.

(2) We will maintain a flexible approach. We must put sound long-range policies into place but we must also be able to adjust to short-term needs.

(3) We will actively seek the advice and cooperation of the Congress, State and local governments, industry and the consumer. We will establish advisory groups representing every region of the country in order to assess their particular energy needs as we adopt various policies. Further, it is only through a cooperative approach with the Congress that the public can be served. Over the weekend we discussed plans for this new organization with a number of Congressional leaders and they assured us of their enthusiastic support. We will continually seek the advice and assistance of Congress as we formulate and implement energy policy.

(4) Finally, we will act. Energy policy now calls for action and we will do whatever is needed to put this country on the road to self-sufficiency.

I certainly don't want to play down the current situation. Although I feel that we will create the proper programs for increased domestic exploration and development as well as increased construction of domestic refineries, an energy

194

crisis does exist today. However, crisis often acts as a catalyst for change -- change that can bring us a sufficient supply of clean energy which is so essential if we are to sustain healthy economic growth and improve the quality of our national life.

The important thing to understand is that by placing all energy policy and implementation under one roof we will make sure that in the short run we will institute policies and programs that will minimize the economic impact of this shortage, while providing assistance and incentives for the longer-run to build the necessary facilities to accomplish our goal of self-sufficiency.

This will require two things:

First, strong Government leadership, and, secondly, and most important, the continuing cooperation of the American people. Americans traditionally respond to crises in a typical patriotic, marvelous way. This is what has made our country so great. This way we will put policies and programs into place to bring on the alternate sources of energy in order to assure us that we will never again be subject to economic and political blackmail by any foreign power. We have the capacity and the resources to meet our energy needs if only we take the proper steps -- and take them now.

Thank you.

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FOR IMMEDIATE RELEASE December 4, 1973

Office of the White House Press Secretary

195

THE WHITE HOUSE

FACT SHEET

FEDERAL ENERGY ORGANIZATION

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Background

On June 29, 1973, the President proposed legislation to create the organizational arrangements needed to carry out Federal energy programs. These included:

- A new cabinet level Department of Energy and Natural Resources (DENR) which would include programs transferred from the Interior Department and several other agencies.
- A new independent Energy R&D Administration (ERDA) consisting of R&D programs from the Atomic Energy Commission, Interior and several other agencies.
- A Nuclear Energy Commission (NEC) to carry out AEC's nuclear licensing and regulatory activities.

The Congress has held hearings on these proposals and is now moving expeditiously to create ERDA and NEC, but enactment of legislation to create DENR does not appear likely this session.

On November 7 and November 25, 1973, the President addressed the Nation on the energy emergency now facing the United States and other countries. He announced a number of actions to conserve energy that were possible with existing authority, described new legislative authority that is needed, and announced other actions that would be taken as soon as energy emergency legislation is passed.

The programs already announced have required a major increase in Federal energy activities and manpower and the actions that will be required by new legislation will require greatly expanded Federal programs. The expansions to date have taken place within existing organizations.

Following a review and on the basis of recommendations from his Energy Emergency Action Group and Governor Love, the President has concluded that additional actions are needed immediately to provide the rapid development and implementation of programs for dealing with the Nation's near term energy requirements and problems.

The Need for New Energy Organization Actions

The key factors contributing to the need for immediate action to reorganize and strengthen Federal energy resource programs and activities include:

- The serious nature of the current energy emergency which is due primarily to the cutoff of petroleum from the Mideast.
- The need for vigorous Federal actions to assure that energy shortages are managed so as to minimize impact on the economy, preserve jobs, and spread fairly the impact of shortages on less essential energy consuming activities.

more

196

- The rapid expansion of Federal energy programs and manpower necessary to develop and implement conservation and allocation programs already announced, and those required by legislation recently signed and legislation expected soon from Congress.

- The need for Federal leadership in a broad national effort over the rest of the decade to increase energy production, reduce demand and move the Nation forward in demonstrating the potential for energy self-sufficiency.

Organizational Actions Announced Today

The President announced today that:

- He will request legislation calling for the establishment of a new agency -- the Federal Energy Administration (FEA) -- which will consolidate energy resource management activities and provide the basis for rapid expansion of those activities to deal with the energy emergency. The legislation would also provide the statutory basis for continuing a small office concerned with energy policy in the Executive Office of the President.

- In anticipation of Congressional action, he is issuing an Executive Order creating a Federal Energy Office which moves to the extent possible within existing authority to create the framework for the new agency and provide the basis for improved management and coordination immediately of Federal energy resource activities.

- The Administrator of the new agency will be Mr. William E. Simon (Deputy Secretary of the Treasury) and the Deputy Administrator will be Mr. John C. Sawhill (Associate Director for Energy and Natural Resources, Office of Management and Budget).

Pending enactment of legislation to create FEA, the heads of the units involved in the transfer have been directed by their superiors to be responsive to the leaders of the FEO. These include the offices of Petroleum Allocation, Energy Conservation, Energy Data and Analysis, and Oil and Gas from Interior, and from COLC, the Energy Division.

Principal Responsibilities of the New Agency

The new Federal Energy agency will be the principal organization within the federal government for the policy and implementation of programs to meet the energy crisis. The key responsibilities are to:

- Develop and integrate domestic and foreign policies relating to energy resource management.

- Develop and implement programs for dealing with energy production shortages, such as fuel allocation, surcharges and rationing.

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. Develop and implement voluntary and mandatory energy conservation programs and promote efficiencies in the use of energy resources.

. Develop and promulgate energy price regulations.

. Develop and recommend policies on import and export of energy resources.

. Facilitate implementation of the President's program to develop the potential for energy self-sufficiency.

. Collect, evaluate, assemble and analyze energy information on reserves, production and demand and related economic data.

. Work with industry, state and local governments and the general public on energy resource management.

Internal Organization of the New Agency

In addition to the Administrator and Deputy who would be appointed by the President and confirmed by the Senate, the new agency will have several Assistant Administrators and a General Counsel.

. The major program elements of the organization, initially, each headed by an Assistant Administrator, would be as follows:

- Economic and Data Analysis

  . Collect, evaluate, compile, analyze and publish data on energy requirements, production, and resources.
  . Analyze economic impact of energy resources and energy programs.

- Policy Planning and Regulation

  . Develop policy and program alternatives.
  . Develop and promulgate energy allocation regulations.
  . Develop, promulgate and administer energy resource pricing regulations.
  . Conduct agency policy and program evaluation.

- Operations and Compliance:

  . Implement and administer energy allocation programs.
  . Maintain relations with state and local governments, industry and the public with respect to energy allocation.
  . Manage the agency's regional and field allocation offices.

- Energy Conservation and Environment:

  . Develop and administer energy conservation programs.
  . Conduct and support energy conservation studies.
  . Coordinate and evaluate Federal agencies' energy conservation programs.

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. Review and evaluate the impact of energy activities on the environment and of environmental programs on energy supply and demand.

- Energy Resource Development

. Identify and develop means for overcoming constraints that hold up building and operation of energy facilities, such as construction, regulatory and materials and labor shortages.
. Develop incentives for increasing domestic energy production.
. Coordinate FEA's energy resource strategy with R&D programs being pursued by the Energy R&D Administration (ERDA).

-- International Policy and Programs

. Maintain current understanding of the international and national security aspects of energy resource management.
. Develop and monitor international energy resource management programs.
. Coordinate within FEA and with other government agencies with respect to international energy resource policy.

Other Major Activities Reporting to the Administrator Include:

- Policy Analysis Office:

. Participate in the development of energy policies.
. Provide liaison with other Federal agencies on economic policies.

- Staff functions will include general counsel, administration, public affairs and congressional relations.

- Advisory Groups will be established to draw upon outside views and expertise from business, environmental, agricultural, labor and consumer interests.

Relationships with Other Energy Organizations

. DENR - The New Federal Energy Administration will carry out the energy resource management activities that would become a part of DENR under legislation proposed by the Administration. Upon enactment of that legislation the new FEA would be folded into DENR.

. ERDA - In response to the President's November 7 request, the Congress is moving expeditiously on legislation to create ERDA. ERDA is responsible for R&D activities. FEA will be responsible primarily for energy resource management activities and will be separate from ERDA.

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. EPO - The Energy Policy Office will be phased out as the new federal energy organization begins its operations.

. EEAG - The Energy Emergency Action Group, established on November 12, 1973 to coordinate emergency actions at the cabinet level will now be chaired by the President, with Mr. Simon as Executive Director.

Functions and Resources to be transferred to FEA

. Initial estimates of the resources associated with the elements identified thus far for transfer to the FEA from other agencies are:

	($ in millions) 1974 Estimates Funds	Positions
From Interior:		
. Office of Petroleum Allocation	$24	1100
. Office of Energy Conservation	7	20
. Office of Energy Data and Analysis	2	50
. Office of Oil and Gas	2	110
From Cost of Living Council:		
. Energy Division	1	55

. Additional resources will be provided to the agency as programs and activities are expanded.

Managing the Short-Term Energy Crisis

In general, the Administration's strategy for managing the current situation will be to minimize the impact of energy shortages on the economy, to maintain production and employment to the maximum extent possible, and to spread the impact of shortages over less essential energy consuming activities.

. Magnitude of the shortage

The current estimates of shortages -- when compared to projected demand for petroleum are 1.4 million barrels per day in the 4th quarter of 1973 (7.5%) and 3.5 million barrels per day (17.3%) in the 1st quarter of 1974. The deficit would fall below 3 million barrels in the 2nd quarter of 1974 due to reduced demand.

. Actions already underway

- Jet Fuel

Beginning January 7, 1974, all carriers will be allocated 15% less than their 1972 levels.

- Gasoline

The decision to adopt a gasoline allocation program was announced on November 25. Initial allocations will be made at a rate of 15% below projected first quarter demand (10% below 1972 demand), consistent with expected initial shifts in refinery production. The gasoline allocation may be decreased as refineries shift from production of gasoline to other petroleum products.

198

- Middle Distillates

  Proposed regulations for rationing middle distillates to end users were published in the Federal Register on Tuesday, November 27. These require a 10% reduction in industrial use, a 15% (6°) reduction in consistency residential thermostats, and a 25% (10°) reduction in commercial heating.

- Residual Oil

  The conversion of oil burning electrical generation plants to coal will save 200,000 barrels per day by the end of the first quarter of 1974. Steps to implement the switches will begin this week.

. Announced actions to be implemented when authority is available

- Retail gasoline sales will be banned from 9:00 p.m. Saturdays to 12:01 a.m. Mondays.

- A maximum speed limit will be set for all roads and highways in the nation of 55 MPH for inter-city buses and heavy duty, over-the-road trucks, and 50 MPH for automobiles.

- Promotional, display and ornamental lighting by commercial establishments will be banned.

- Fuel for use by general aviation will be reduced.

- Residential ornamental lighting will be banned.

. New actions being developed or considered for near-term implementation

- Switching of refinery outputs from gasoline to middle distillates and residual fuels, either by providing price incentives through COLC regulations or by governmental mandate when authority is available.

- Allocation programs for crude oil, residual fuel oil, and other petroleum products as specified in the Emergency Petroleum Allocation Act of 1973.

- Use of coupons, price increases, taxes or a combination of the three to bring gasoline consumption in line with demand at the lower levels of expected supply.

- Conversion of commercial airliners from kerosene jet fuel to naptha jet fuel.

- Surcharges to discourage excessive use of natural gas and electricity.

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FEDERAL ENERGY ADMINISTRATION

POLICY ANALYSIS

ADMINISTRATOR

EXECUTIVE ASSISTANT TO THE ADMINISTRATOR

DEPUTY ADMINISTRATOR

Advisory Groups
-Economic - Energy Coordination
(Business-Labor-Agriculture
Consumer
Environment)

- Public Affairs
- General Counsel
- Administration
- Congressional Relations

Asst. Admin. for Economic & Data Analysis

- Energy Data Analysis
- Economic Analysis

Asst. Admin. for Policy, Planning & Regulation

- Policy Formulation & Analysis
- Reg. Promulgation
- Evaluation
- Pricing (CLC)

Asst. Admin. for Operations & Compliance

- Energy Alloc.
- State & Local Gov. Rel.
- Field Opera.
- Industry & Public Assist.

Asst. Admin. for Int'l Policy and Programs

- Int'l Policy
- Ntl Security
- Int'l Commerce
- Law of the Sea
- Int'l Programs
- Mandatory Oil Import Program
- Energy Export Regulation

Asst. Admin. for Energy Conservation and Environment

- Transportation, Residential, Commercial & Industrial Conservation Policy
- Coordination of Federal, State and Local Conservation Programs
- Energy Conservation Studies
- Environmental Impact

Asst. Admin. for Energy Resource Development

- Construction bottlenecks
- Material and labor shortages
- Regulatory delays
- Transportation constraints
- R&D coordination

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

199

FOR RELEASE AT 12:30 P.M.

STATEMENT OF THE HONORABLE FREDERIC W. HICKMAN
ASSISTANT SECRETARY OF THE TREASURY FOR TAX POLICY
BEFORE THE
25TH NATIONAL CONFERENCE OF THE TAX FOUNDATION
NEW YORK, NEW YORK
WEDNESDAY, DECEMBER 5, 1973

PENSION AND PROFIT-SHARING PLANS: THE QUINTESSENTIAL TAX SHELTER?

We have been busy at the Treasury during the last year devising plans to tighten up on so-called "tax shelters."

A tax shelter is a special kind of investment. It has two distinguishing features. The first is that the investment produces income which is nontaxable for substantial periods of time, sometimes indefinitely. The second is that the investment is financed by a marvelous kind of boot-strap arrangement made available by the Internal Revenue Code. The act of making the investment itself produces a deduction which retrieves for the taxpayer money which he would otherwise have to pay to the Internal Revenue Service, and which, when retrieved, may be used to pay for the very investment which created the deduction. It is a wondrous device. It is much more fun for taxpayers than such old-fashioned investments as tax-free municipal bonds. It is like buying a tax-free municipal bond and having the federal government give you, or at least lend you, the money with which to buy the bond in the first place.

We have had a great deal of mail in connection with our proposals to take away some of these benefits. A great many people feel that the Treasury is a spoilsport to suggest change in this area. Some take a Chicken Little view and cry that the sky is falling--that no one will build buildings, no one will raise beef, no one will drill for oil, ever again.

There has grown up a substantial industry devoted to the packaging and sale of tax shelters. There has been speculation as to what will happen to those purveyors of tax shelters. My own view is that they are an unusually hardy and resourceful lot, and that they will find something else to sell. But I have wondered myself what new gimmicks will be devised and exploited if we succeed in taking away the old ones. The answer--or at least one of the answers--struck me when I picked up a recent issue of the Los Angeles Times. How could I have overlooked such an obvious thing? In an article entitled "Rich Pained by Plan to Bulldoze Tax Shelters," the author wrote:

> "If the Administration proposal becomes law, it could knock out of business many of those firms whose 'only function is to find investors with money

and to package a tax shelter deal,' says Gregory McKay, president of Innovest Inc., Beverly Hills, which has raised millions of dollars for tax shelter apartment projects.

* * *

"McKay's firm plans to make the transition by switching its emphasis from real estate tax shelters to the management of profit-sharing plans for its wealthy clients."

OCT ? 1973

Los Angeles Times

Rich Pained by Plan to Bulldoze Tax Shelters

BY ROBERT ROSENBLATT
Times Staff Writer

My friend Donald the Doctor is nervous.

He sees the tax collectors from Washington trying to take more of his money. If there's one thing Donald enjoys less than missing a golf date, it's paying higher taxes.

Donald and others equally affluent have been hiding in tax shelters for years to ease the pain that strikes every April 15.

The U.S. Treasury forgoes more than $1 billion a year in tax revenues because of these shelters and the Nixon Administration has proposed legislation to close them. A top Treasury official recently predicted that Congress would act in 1974 to close off much of this particular tax escape route for the wealthy.

The move against shelters, which has growing support in Congress, is worrying high-income investors, not to mention all those who make money from organizing, selling and running shelter deals.

Tax shelter

If the Administration proposal becomes law, it could knock out of business many of those firms whose "only function is to find investors with money and to package a tax shelter deal," says Gregory McKay, president of Innovest Inc., Beverly Hills, which has raised millions of dollars for tax shelter apartment projects.

McKay,s firm plans to make the transition by switching its emphasis from real estate tax shelters to the management of profit-sharing plans for its wealthy clients.

Profit-sharing plans, of course. Pension and profit-sharing plans have long been the quintessential tax shelter. It is true that in order to enjoy the tax shelter provided by pension and profit-sharing plans, the taxpayer needs some cooperation from his employer, unless he is himself the employer. But enlightened employers have been helpful in that respect, and that extraordinary ingenuity for which tax professionals like yourselves are justly famous has provided new and exciting ways for getting the government to help taxpayers to help themselves.

The basic structure of the Internal Revenue Code provisions for pension and profit-sharing plans is constructed of tax shelter materials, pure and unalloyed. Under a qualified plan, the compensation which employers would otherwise pay to their employees is paid instead into a qualified plan. The employer gets a deduction just as if he had paid the amounts directly to his employees, and he is happy. The employees, however, are excused from tax at the time the payment is made, so that the entire contribution, unreduced by taxes, can be invested by the plan. Thereafter, the income from the investment and reinvestment of the contributions is received free and clear of tax to be reinvested again. Thus, not only the original contribution but all income from the contribution is sheltered from tax until the employee retires. When he

201

does retire, the shelter is removed, but gently. If he takes the money out all at once, there are special rate and averaging provisions which mitigate the pain and suffering. If he takes out his interest in the fund in periodic payments, he pays tax at ordinary rates, but only as he receives the payments. If he should die before he has received all that is coming to him, the Code thoughtfully provides extra comfort for his loved ones by excusing from estate tax those assets which will be paid to his survivors. If the plan has been especially loyal to the employer and has invested its assets in stock of the employer, the Code recognizes that loyalty by imposing no income tax on any appreciation in the stock when it is distributed to the employee after retirement.

All of these tax benefits are very expensive in terms of lost revenues. The total revenue loss is approximately $4 billion a year. That represents nearly 2 percent of the total revenue collections of the federal government. It is a very significant item. Given the size of the revenue loss and the extent of the special tax benefit provisions, it is curious that there has not been more talk about pension and profit-sharing plans as "loopholes." You will perhaps recall that there was a great deal of talk last year about tax reform, and one team of distinguished academic economists proposed to add some $77 billion to the income tax base. That proposal, if carried out, would have changed the rules from top to bottom, involving as it did such items as eliminating income splitting; taking away deductions for home mortgage interest; changing the rules on capital gains and taxing the income element in life insurance. Considering the earth shaking--or at least the tax shaking--nature of these proposals, I was astonished to find that they expressly omitted any change in the treatment of pension and profit-sharing plans. That fact was said to be:

> "...dictated by the fact that taxation of employer contributions for health plans and pensions involves difficult practical problems that would require basic revisions in the Nation's private pension structure."

I confess that I am bemused by the fact that there are unusually favorable tax provisions for the pensions of academics and cannot help reflecting that it seems to be true in academia, as elsewhere, that a "loophole" is defined as a tax benefit enjoyed by somebody else.

Before I go any further, let me be emphatic that the Treasury Department does not object to the basic thrust of these provisions and does not propose that they be taken away. They further a very important national purpose of providing financial security in old age.

But I do wish to call your attention to the fact that they are very generous provisions. It is necessary in such cases to step back occasionally and consider whether our citizens are getting their money's worth under such a system and whether it is operating in a manner which is efficient and which is fair to all of the taxpayers who must help bear the burden through their taxes.

Let us examine the premises on which the present system is based. Tax benefits are available under the Code for employer plans which benefit employees. An employer may set up different plans for different groups of employees so long as the plans are "nondiscriminatory." To require a single plan for all employees would straitjacket both employers and employees--different groups of employees in different plants or in different unions might wish or need different benefits. Moreover, it seems to be generally agreed that some eligibility period is appropriate, with the result that new employees are typically not covered. The nondiscrimination requirement is intended, in general, to assure that owners and managers do not set up plans which provide tax shelter benefits primarily for themselves. The price of pension benefits for the owner-manager is that he provide similar benefits for a reasonable cross section of his employees. Generous benefits to ownermanagers are a carrot intended to bring most employees into the system.

Has the system worked? Do we in fact have anything approaching universal coverage?

I regret to report that although the private pension system has grown tremendously over the last 30 years, less than half of the private nonagricultural work force is covered by the private pension system. More than half of the workers are still outside the system. Furthermore, many of those who are technically "covered" by plans will either get no benefits at all or will get only slight benefits because they changed employers.

Thus, well over half of our workers get no benfits or only small benefits from the private pension system and are nonetheless required to help make up with their taxes the revenue loss which the system creates. The Administration believes that this must be changed and that we must cause prompt and effective steps to be taken towards more universal coverage. That is what our pension program is about.

It is relevant in this context to consider how the tax benefits are now distributed. The fact is that a relatively small portion of the tax benefits goes to workers at the lowest income levels and that a relatively large portion goes to workers at the top income levels.

203

This is illustrated by the three charts which follow:

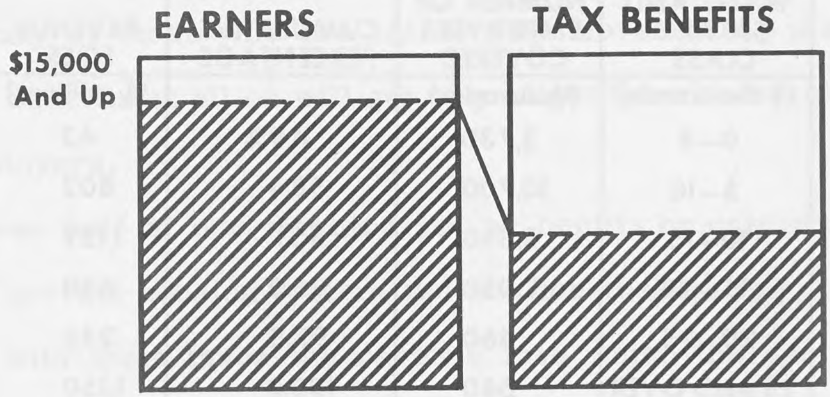
Number of Covered Employees and Revenue Loss from Private Pension and Profit-sharing Plans, CY-72

WAGE AND SALARY CLASS ($ thousands)	NUMBER OF EMPLOYEES COVERED (thousands)	CUMULATIVE PERCENTAGE	REVENUE LOSS ($ millions)	CUMULATIVE PERCENTAGE
0–5	2,730	11.9%	43	1.1%
5–10	10,700	58.4	802	21.1
10–15	6,380	86.1	1,129	49.3
15–20	2,050	95.0	630	65.1
20–25	460	97.0	246	71.3
25 AND OVER	680	100.0	1,150	100.0
TOTAL	23,000		4,000	

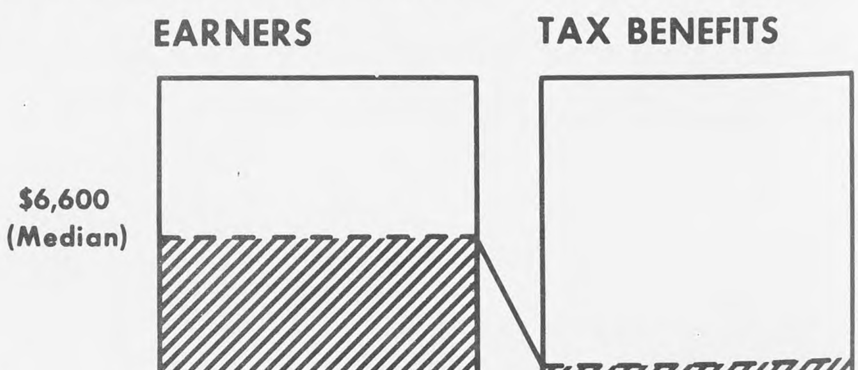
Top 8 Percent $15,000 and Over
ALL WORKERS -- Median Wage $6,600
(Workers under this average will receive $250 million of the revenue loss.)

Excludes plans for self-employed. Loss shown is from exclusion of employer contributions and investment earnings, net of tax on pensions.

THE UPPER 8% OF EARNERS RECEIVE 50% OF THE TAX BENEFITS



THE LOWER 50% OF EARNERS RECEIVE 6% OF THE TAX BENEFITS



204

Several factors help explain this somewhat extraordinary distribution of tax benefits. One factor is that coverage is heavily concentrated in unionized situations and union employees tend to be in income brackets above the median. It follows from that fact that we cannot expect the union movement to be the engine for achieving more universal coverage. A second factor explaining the income distribution is that a great many lower paid workers are younger persons. Many of those younger, lower paid workers will in due course become older, better paid workers and will have a good chance of being covered by the private pension system.

A third factor is the interrelation of the private pension system with social security. The concept is that the social security system provides a first level of protection to which the employer already contributes. Congress has therefore permitted the private pension and profit-sharing system to operate as a supplemental second level, confined to wages above the social security base. Since the social security base has now increased to $10,800, it is possible for pension and profit-sharing plans to exclude entirely workers earning less than a fixed amount per year--say, $10,800--which represents much more than half of all workers. While the integration provisions are extraordinarily complex, it may be useful to see how they can work in a simple case.

The following chart indicates how the integration provisions may be used to eliminate or nearly eliminate the private pension base for lower paid employees.

INTEGRATION

Private pension and profit sharing plans may be confined to wages above the social security base.

Employee	Salary	Less S. S. Base	Private Pension Base
A	$ 8,000	$ 10,800	$ -0-
B	12,000	10,800	1,200
C	130,000	10,800	119,200

205

The next chart illustrates how such an integration provision affects the distribution of employer contributions to such a plan.

INTEGRATION

Private pension and profit-sharing plans may be confined to wages above the social security base.

		CONTRIBUTIONS 5% Money Purchase Plan	
Employee	Salary	Without Integration	With Integration
A	$ 8,000	$ 400	$ -0-
B	12,000	600	75
C	130,000	6,500	7,425
		$ 7,500	$ 7,500

In assessing the performance of the present system, it is also relevant to know how important the tax benefit is to the final pension. It is impossible to make a single generalization, as the benefits depend in each case upon the particular plan. However, the following table gives an indication:

Tax Subsidy Element in Pensions

(ALL IN CONSTANT DOLLARS)

IF THE EMPLOYER CONTRIBUTES 15% OF SALARY

	EXECUTIVE		EMPLOYEE	
	WITH TAX BENEFITS	WITHOUT TAX BENEFITS	WITH TAX BENEFITS	WITHOUT TAX BENEFITS
STARTING TAXABLE SALARY	$ 30,000	$ 34,500	$ 10,000	$ 11,500
ENDING TAXABLE SALARY	100,000	115,000	18,000	20,700
AFTER-TAX PENSION	25,990	12,312	8,005	5,765
"TAX SUBSIDY"	53%		28%	

Assumptions: Participation age 35 to age 65; 6% interest; 2½% inflation; joint returns; executive has outside income equal to deductions.

206

As the foregoing discussion and charts indicate, the potential for tax savings is very substantial, particularly in the upper income brackets. As the excerpt from the Los Angeles Times clearly indicates, there is fertile soil to be cultivated by the merchants of tax shelters. Let me tell you where I expect them to operate.

The first area of operation will be ordinary pension and profit-sharing plans. The corporate executive who is interested in maximizing his tax shelter will do what he can to put in place a maximum pension or profit-sharing program. The normal price of securing such a tax shelter, however, is that benefits similar to those provided for the executive must be provided also for other employees. Many employers will wish to provide benefits for all their employees. But those who do not will find that they may hold the coverage and the cost with respect to other employees to a minimum by integrating with social security to the maximum extent permitted. A sharp pencil will often prove that the cost of "providing" for all employees under such circumstances maybe very much less than the tax benefits gained by the owner or manager.

The social security tax base is already $10,800, and we are faced with imminent, continuing and substantial increases in that base amount. Next year the number will go to $12,600, which is much higher than the wages which most businesses pay to the majority of their employees. As a result, the coverage of the majority of employees may be entirely eliminated or kept to an inconsequential minimum. Where there is a large number of employees, however, there will often be a major cost in providing benefits for all employees, and that may serve as a check on owner-managers setting up unduly lush benefits for themselves. That is particularly true with respect to plans which set aside large percentages of income, say, income percentages of more than 7 percent, which is the present social security integration percentage.

For those who wish to avoid the cost of covering other employees in another way, there has grown up in the last few years the new concept of "salary reduction" plans. These are plans in which each employee has the option to participate in a plan, but only at his own cost. Under a salary reduction plan, a $100,000 a year executive who wishes to set aside $6,000 a year could exclude that amount from his income for tax purposes and put it into a trust where it would earn tax-free income until retirement. The only clear requirement is that he persuade a few other less highly paid employees to be thrifty in the same way, so that of those actually participating, one half will be in the lower two-thirds of the company's pay bracket. You will observe that is not a very onerous requirement.

The Internal Revenue Service did for a limited period issue rulings which seemed to give a green light to such plans, at least with respect to the tax-free character of the earnings on contributions to the plan. About a year ago, however, the Treasury issued proposed regulations which would make it clear that amounts so set aside are not excludible from the participant's income.

This matter is still in controversy. It seems to us that the proposed regulations are legally correct--although that conclusion is contested. It also seems to us that we will completely undercut the

207

purpose of the present system to achieve more universal coverage if we permit individuals to elect large tax shelter benefits at their individual option without requiring that they also provide similar benefits for all employees.

The Senate bill effectively forecloses salary reduction plans. However, the Ways and Means Committee has had more difficulty with the proposition, and has tentatively decided to instruct us not to issue final regulations until a year after next. Since the plans are all fairly new, few individual workers have substantial amounts invested in them; and employees at wage levels below $25,000 would be as well or better off under the Administration's proposals for individual retirement accounts. The principal political opposition to the Treasury position appears to come from the purveyors of the tax shelters--in this case, the insurance companies which have been promoting the plans. In any event, if the Congress fails to cut off this option in principle, we can anticipate that it will be fully exploited as a tax shelter for higher paid executives.

A second and perhaps even more alluring opportunity for tax shelter arises in connection with profit-sharing plans. It is important to realize that the difference between a profit-sharing plan and a pension plan is often minor to the point of being insubstantial. There are, of course, old-time, classic profit-sharing plans under which there is a fixed formula intended to give the employee a direct share in the employer's good fortune. However, the Code does not make it necessary for profit-sharing plans to assure employees a fixed share of the profits. It is necessary only that the plan recite that the contribution is to be made out of earnings, whether current or accumulated. This is illustrated in the following chart:

PENSION VS PROFIT SHARING PLANS

The Only Difference May Be

Money Purchase Pension Plan	**Profit-Sharing Plan**
Section 3.1. Amount of Employer Contributions. For each year the employer shall contribute an amount equal to 10% of the aggregate compensation of members for such year.	Section 3.1. Amount of Employer Contributions. For each year the employer shall contribute out of current or accumulated profits an amount equal to 10% of the aggregate compensation of members for such year.

All other provisions the same

Profit-sharing plans may be used in place of a pension plan, or in conjunction with a pension plan, in order to relieve the employer of making a normal contribution or some part of it in a bad year, in order to permit withdrawals unrelated to retirement, and in order to provide long time employees with the extra benefits flowing from forfeitures. There is no Code requirement that profit-sharing plans be retirement oriented and they may in fact be used simply as a tax shelter investment device.

I personally believe that profit-sharing of the classic type is a good thing and that it usually benefits the company which adopts it by improving employee morale and by making employees more loyal to the company and more concerned with its problems. Profit-sharing plans

208

of all types have a recognized role as a variant method of providing retirement benefits. One may question, however, what national priority is served by granting the extraordinary tax shelter benefits to profit-sharing plans which are not essentially retirement plans, but simply investment vehicles.

For a number of years, the Internal Revenue Service has permitted certain profit-sharing plans which simply permit individuals who may already have ample retirement security to do their extra investing in this best of all tax shelters. This is accomplished under what is known as a "cash or deferred" profit-sharing plan. The employer first gives an employee a part of his compensation in the form of a bonus and then permits him the option of taking that bonus in cash or putting a part or all of it into a profit-sharing plan. Any amount which the employee puts in such a plan is in truth an individual investment in a tax shelter--the employee may deduct the entire amount which goes into the plan; the contribution thereafter produces tax-free earnings; and the employee can, if the plan provides, have virtually unlimited access to his investment. (Such plans often permit contributions ranging as high as 15 to 20 percent of the employee's income.)

Cash or deferred profit-sharing plans offer a vast potential for tax shelter merchants. Any employer who now pays a year-end bonus is a potential customer. Employers who do not now pay bonuses can usually arrange over a short period of time to recast a portion of the basic compensation which they pay into the form of a "profit-sharing" bonus, and thus be in a position to take advantage of this device. By simply setting up a qualified plan, an employer can offer himself and his employees, at no cost to anyone except the United States Treasury, the opportunity to eliminate a very large percentage of their taxable incomes and to make investments which will be totally tax-free for the indefinite future.

I must confess that were I back in private practice I would regard myself as derelict in my duty to clients if I did not instruct them in the cash and deferred profit-sharing caper. Under the Senate bill, this potential raid on the Treasury is foreclosed. But the Ways and Means Committee has not yet been that brave. I am aware that there now exist cash and deferred profit-sharing plans upon which employees have come to rely, all with the past blessings of the Internal Revenue Service. Some reasonable transitional rule for such situations is doubtless in order. But it is, in my opinion, absolutely critical that this avenue to major tax avoidance be closed off.

Well, where do we go from here? How do we head off the potential abuses; confine the tax advantages to legitimate retirement benefits, and see that the majority of our workers have the opportunity to participate in the private pension system?

The Administration has presented to the Congress a three-part plan:

First, the present rules with respect to eligibility, vesting, and funding of existing plans would be strengthened. This will tend to increase and more fairly distribute the benefits for workers for whom plans already exist and to make it more certain that there will be funds available to pay the benefits which have been promised to them. This is very important.

Second, we propose to liberalize the rules with respect to plans for noncorporate employers. These rules have been so out of line with the benefits available to corporate plans that employers have had little incentive to set up plans to cover themselves and their employees and in fact have been slow to do so. There is a tendency to view this proposal as a step for the primary benefit of accountants, lawyers, doctors, and other professional people. That is a mistaken assumption. Those self-employed persons who are really avid for tax shelter benefits can get them by the simple expedient of incorporating. And why not? There is no reason in the world why they should not have the same benefits available generally to others. The problem is that many self-employed persons would rather not incorporate and do not find it worthwhile setting up plans under the essentially stingy and extra-complicated rules now provided by the Code for noncorporate businesses. The principal victims of the present provisions are not the self-employed--they can take care of themselves--but their employees. Those employees account for a significant portion of our work force and we must help to bring them into the system.

The third Administration proposal has to do with that vast number of workers who simply have no opportunity to join an employer plan or who are covered by inadequate plans. They are the persons who really need help. Under the Administration proposal they would be permitted individually to put away up to $1,500 a year as a measure of self-help. Admittedly, this is not a large sum. But it will provide meaningful benefits for the tens of millions of lower income persons who are thrifty and wish to use it. It is designed primarily for lower income persons. Higher income persons are much more likely to be covered by existing plans or to be in a position to set up plans for themselves. If we were to make the permitted contribution too large, it would undercut the present system. Owners and managers of businesses would simply set up their own individual accounts rather than go to the expense of setting up plans which must also cover their employees.

We at Treasury find it difficult to understand why there has been such lukewarm interest in these proposals in the Congress. Almost everyone seems to be much more interested in improving benefits for those who already have benefits than for extending the system to cover those who have nothing. Under the determined leadership of Senator Carl Curtis, we were able in the Senate to get a substantial part, but not all, of the proposed provisions for individual retirement accounts in the Senate. In the Ways and Means Committee, I regret to report, concern for the little man with no pension has been less in evidence. The provisions for individual retirement accounts as they presently exist in the Ways and Means bill have been whittled away to the point they simply will not do the trick.

I believe the problem, to put it bluntly, is that the people for whom the proposal is designed, are ordinary little people, unrepresented by any political lobby. It may be that the meek shall inherit the earth. But getting them decent retirement benefits is an uphill political effort. Business representatives have been notably uninterested in promoting these provisions. Even the insurance companies and mutual funds, who ought to view this as a major new market, have been distinguished primarily by their disinterest. Nor have union groups exhibited much concern for the little man who cannot now participate in the system. Both employers and unions seem to be primarily concerned with holding down costs for plans in which they are particularly concerned and in writing exceptions to the new provisions when they prove inconvenient. Such attitudes are perennial in the legislative process. But they are disappointing.

210

The liberalizations which we ask for the self-employed and the new provisions which we ask for individual retirement accounts will be important and significant to those affected. But they are very modest in comparison to the tax benefits presently available under corporate plans. The Ways and Means Committee's version of the pension bill would permit for corporate plans a maximum retirement benefit of $75,000 a year. You will see from the chart which follows, that under the assumptions indicated that benefit level translates into an annual contribution of $34,765. That is nearly five times the contribution permitted to the self-employed and more than 20 times the contribution permitted under the individual retirement accounts. The disparity is further increased by the fact that the Ways and Means Committee has so far declined to provide an inflation adjustment for non-corporate contributions, although such an adjustment is provided for corporate plans.

	Annual Contribution Beginning at Age 40 in 1974	Annual Pension Payable in 1974 Dollars Beginning at Age 65 in 1999
INDIVIDUAL RETIREMENT ACCOUNT	$ 1,500	$ 3,236
SELF-EMPLOYED	7,500	16,180
CORPORATE	34,765	75,000

Assumes 6% interest and 3% inflation.

In conclusion, I should like to ask the people in this room for their active assistance in securing from the Congress legislation which will take a big step forward in extending the private pension system to those not now covered. You and the organizations which you represent are among the primary beneficiaries of the present system. The disparity between the benefits which you enjoy and those available to more than half of our work force cannot be justified. There are two ways to eliminate that disparity--either to cut down the benefits presently enjoyed by those with plans, or to provide comparable benefits for those who do not now have plans. Sooner or later the disparity will be resolved in one fashion or the other. The Administration's program is designed to extend the system to those whom it does not now cover. The program deserves not only your support but your active support. I respectfully ask that you give it.

o 0 o

Department of the TREASURY
NEWS

no 211

FOR IMMEDIATE RELEASE [illegible]

TREASURY ISSUES DUMPING FINDING WITH RESPECT TO
POLYCHLOROPRENE RUBBER FROM JAPAN

Assistant Secretary of the Treasury [illegible] announced today that he has issued a dumping finding with respect to polychloroprene rubber from Japan. The finding will be published in the Federal Register of December [illegible], [illegible].

On August [illegible], 1973, the [illegible] that polychloroprene rubber from Japan [illegible] likely to be sold, at less than fair value within the meaning of the Antidumping Act, 1921, as amended.

On [illegible], 197[illegible], the [illegible] the Secretary of the Treasury that an industry in the United States was being injured by reason of the importation of polychloroprene rubber from Japan [illegible] sold, at less than fair value within the meaning of the Antidumping Act, 1921, as amended.

After these two determinations, the finding of dumping was automatically [illegible] as the final [illegible] in antidumping investigations.

During calendar year 197[illegible], imports of polychloroprene rubber from Japan were valued at approximately $[illegible] million.

* * *

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

212

FOR IMMEDIATE RELEASE December 5, 1973

TREASURY ISSUES DUMPING FINDING WITH RESPECT TO POLYCHLOROPRENE RUBBER FROM JAPAN

Assistant Secretary of the Treasury Edward L. Morgan announced today that he has issued a dumping finding with respect to polychloroprene rubber from Japan. The finding will be published in the Federal Register of December 6, 1973.

On August 2, 1973, the Treasury Department determined that polychloroprene rubber from Japan was being sold, or likely to be sold, at less than fair value within the meaning of the Antidumping Act, 1921, as amended.

On October 31, 1973, the Tariff Commission advised the Secretary of the Treasury that an industry in the United States was being injured by reason of the importation of polychloroprene rubber from Japan sold, or likely to be sold, at less than fair value within the meaning of the Antidumping Act, 1921, as amended.

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

During calendar year 1972, imports of polychloroprene rubber from Japan were valued at approximately $8 million.

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

213

FOR IMMEDIATE RELEASE December 6, 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 December 18, 1973 , in the amount of $1,800,470,000. The bills of this series will be dated December 18, 1973 , and will mature December 17, 1974 (CUSIP No. 912793 UA2).

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Wednesday, December 12, 1973. Tenders will not be received at the Treasury Department, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own 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 December 18, 1973, in cash or other immediately available funds or in a like face amount of Treasury bills maturing December 18, 1973. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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

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

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

214

EMBARGOED FOR RELEASE UNTIL
10:00 A.M. THURSDAY, DECEMBER 6, 1973

TESTIMONY BY THE HONORABLE WILLIAM E. SIMON
DEPUTY SECRETARY OF THE TREASURY AND
ADMINISTRATOR OF THE FEDERAL ENERGY OFFICE
BEFORE THE
SENATE GOVERNMENT OPERATIONS COMMITTEE
THURSDAY, DECEMBER 6, 1973

Mr. Chairman and Members of the Committee:

It is usual for people invited to testify before your Committee to indicate how "pleased" they are to be here. Somehow I wonder if "pleased" is the right word for a man in my position.

I am appreciative for the speed with which your committee has acted in scheduling these hearings and for the fine spirit of cooperation which you, Senator Jackson and the other members have displayed in responding to our request for rapid action. And I am impressed by the knowledge and experience which the people in Congress have demonstrated already in preparing this legislation for submission.

It is increasingly apparent that the energy emergency is not going to yield easily to one or two simple solutions, nor is it going to get solved in a hurry.

S-337

We are confronted with an immediate short-term emergency brought about by the embargo of Middle East oil supplies. Nevertheless, we as a Nation had already begun to experience an increasing shortage of energy sources to meet our constantly growing demand, and an uncomfortable reliance on foreign petroleum sources which works to our disadvantage in the complex network of international relations.

I have been asked by the President to manage the immediate emergency as well as to develop the longer-term solution to the energy problem.

I emphasize the word manage because that is exactly what must now be done. You here in Congress have been going through long and difficult debates over a number of urgent pieces of legislation aimed at stating policy and granting the powers which the President and the Executive Branch will need to face up to these problems.

At the same time, we in the Executive Branch have started to put together the capability to act swiftly to implement these authorities as they are enacted.

Both of us have learned hard lessons about the complex ways in which energy influences our economic development, our national security and the health, well being, and even the daily conveniences of every American.

We now clearly realize that the Federal Government must exercise leadership. We must manage the energy problem mainly

215

because it is so complex and so interwoven with vital interests which we cannot allow to be threatened or harmed. We propose to do this in the full recognition that the rights of citizens, and governments, and private organizations cannot be overlooked in the process.

In order to provide this Federal capability to manage all of the dimensions of the problem, we need a new and better organization. This is the purpose of the legislation before your committee today.

A great deal of valuable work has been done by Congress and by the Energy Policy Office under Governor John Love to explore the problem and frame the policies which should guide us, but we have already gone beyond the policy dimension and must now carry out the operational job of moving out and making things really happen.

A Federal Energy Office was created by Executive Order on December 4, 1973 and is now functioning under my direction. We now seek your legislative approval for the creation of the Federal Energy Administration. In addition to the draft legislation you have before you, we have an amendment which we have made available to the Committee staff and which would create a Federal Energy Office, with the Executive Office of the President. We hope you will include this as part of the legislation you are considering.

Copies of a chart showing our proposed organization and explanatory statements explaining how it will function have been supplied to the Committee. I will be glad to answer any questions about that organization proposal, but I would like to devote the balance of my opening statement to outline briefly some of our strategies for managing the emergency situation and some of the actions we have already taken or are weighing for the immediate future.

First of all, I would emphasize that the purpose of the Federal Energy Administration is to provide the necessary framework to take needed actions. A major problem in dealing with energy matters has been the fact that too many energy-related responsibilities have been dispersed throughout the government. The Federal Energy Administration will pull all those elements together in one unified body, thus enabling us to act on energy policy immediately.

We will be pursuing short, intermediate and long-term goals. I believe our greatest concern for the immediate future is to find ways to minimize the adverse impact of our fuel shortage on the individual and on our economy.

We believe that the magnitude of current shortage need not lead to despair concerning its impact on the economy as timely conservation and other measures are put into place. I do recognize that the impact of the shortage would differ throughout the economy because some industries, like transportation, exclusively utilize petroleum or its products; and, in others, possibilities of substitution of energy sources are limited.

 214

However, we have been a nation of great energy wastrels. With six percent of the world's population, we consume over one-third of the world's energy and obviously there is a lot of waste in that consumption. We have been accustomed to an overabundance of cheap energy. That day has ended. We must change our lifestyles and be more thoughtful. I believe that the American people will respond and I do not accept dire forecasts that industry will bear the full burden of the shortfall. There's no question that industries will have to improve the efficiency of their energy utilization; but our main thrust will be to get the consumer to save, so that there will be the least possible effect in industrial production and employment.

Nevertheless, many of the decisions we will make will not be popular; the choices will be hard, but we will take whatever action is necessary. We are pointing toward voluntary actions backed up by simple self-regulating programs where necessary. We also feel that State and local government should have a large role to play both in deciding how Federal programs will be set up in actual on-the-ground administration of them.

We are now establishing advisory groups representing every region of the country in order to assess the needs of business, labor, agriculture, the environment and the consumer. We did this in a limited way when I was Chairman of the Oil Policy

Committee, as a result of your suggestion, Mr. Chairman, and found it to be quite effective.

As I see it, the Federal Energy Administration will do the following:

- Develop and integrate domestic and foreign policies relating to energy resource management;

- Develop and carry out systems to solve production shortages, allocate energy resources, apply demand control mechanisms, and institute conservation measures;

- Develop and apply energy price regulations and needed forms of import and export controls;

- Establish a solid reliable data base of publicly available statistics which give us a clear picture of both the supply and demand sides of the energy equation, both now and in the foreseeable future;

- Work with industry, State and local governments and the general public in a program of education and awareness of the nature of the energy problem and the public cooperation needed for its solution.

Our goal is to put into place programs that will give us the ability for self sufficiency in energy. Many actions have already been taken to bring our short-term emergency situation under control. Other actions are already in preparation for implementation as soon as possible. It might be useful to

217

summarize these by type of fuel source involved:

Jet Fuel

-- The projected first quarter shortage is 400,000 barrels per day (32.2% of demand).

-- Beginning January 7, 1974, all carriers will be allocated 15% less than their 1972 levels.

Gasoline

-- The projected first quarter shortage is around 1,400,000 barrels per day (22% of demand).

-- The decision to adopt a gasoline allocation program was announced on November 27. Initial allocations will be made at a rate of 15% below projected first quarter demand (10% below 1972 demand), consistent with expected initial shifts in refinery production.

-- Refineries have been asked immediately to begin reducing delivery to wholesalers and retailers by 15%.

-- The President has directed the Secretary of Transportation to give priority to grant applications for the purchase of buses for mass transit under the authority of the Federal Aid Highway Act of 1972 and the Urban Mass Transportation Act. (Approximately $1.8 billion per year is available for urban highway and urban mass transit capital assistance.)

-- The Cost of Living Council has announced price increases to encourage shifts in refinery output so as to increase supplies of fuel oils and vital petrochemical feedstocks.

Middle Distillates

-- Current shortages of 900,000 barrels per day (17.5% of demand) can be reduced by a refinery shift of 400,000 barrels per day.

-- Proposed regulations for rationing middle distillates to end users were published in the Federal Register on Tuesday, November 27. These require a 6° reduction in residential thermostats, a 10° reduction in commercial heating, and a 10% reduction in industrial use.

-- Priority will be given to fuel production activities, public passenger transportation, food production and processing, and essential community services. Final regulations will be effective December 27, 1973, but voluntary compliance is expected sooner.

Residual Oil

-- Current shortages are estimated at 1,050,000 barrels per day (29.4% of demand).

-- The conversion of oil burning electrical generation plants to coal will save 200,000 barrels per day by the end of the first quarter of 1974. Steps to implement the switches will begin this week.

-- Power will be diverted from the U.S. Atomic Energy Commission facilities producing enriched uranium for

218

nuclear power plants when no alternate source of power exists; conservation measures are inadequate to meet the need; and the power is required to replace electricity lost temporarily while utilities convert from oil to coal.

-- Final regulations to prevent power plants and industries from switching from coal to oil were published on November 27 and will be effective December 7.

-- Switching of refinery outputs from gasoline to middle distillates and residual fuels, either by providing price incentives through COLC regulations or by governmental mandate when authority is available.

-- Allocation programs for crude oil, residual fuel oil, and other petroleum products as specified in the Emergency Petroleum Allocation Act of 1973.

-- Switching of twenty six utilities from oil to coal, principally in the east.

  . Negotiations for voluntary switching will begin this week with selected utilities.

  . Conversions will be mandated at selected plants once legislative authority is provided.

In addition, Mr. Chairman, our office will be evaluating many further actions and ideas, many of which have been advanced here in Congress. As we reach the point of understanding the payoff and impact of each approach we will want to discuss the results of these assessments publicly before we take action.

Some of these ideas include:

-- Use of coupons, price increases, taxes or a combination of the three to bring gasoline consumption in line with demand at the lower levels of expected supply.

-- Conversion of commercial airliners from kerosene jet fuel to naphtha jet fuel.

-- Surcharges to discourage excessive use of natural gas and electricity.

-- Additional mandatory conservation measures, including:

. Increased reductions in energy consumption by the Federal Government.

. Prohibiting the use of off-road vehicles and power pleasure boats.

. Banning the advertising and sale of central electric resistance heating systems.

Finally and perhaps most importantly, it will be the role of the Federal Energy Administration to expedite the development of every domestic energy resource as rapidly as we can. I want FEA to become a strong positive force which works with industry, the Federal Government, State and local jurisdictions, financial institutions, the transportation industry and others to cut the red tape, overcome inertia and find the fastest way to produce greater domestic supplies of energy of all kinds.

219

I also urge the Congress to continue its rapid action on the proposal to create the Energy Research and Development Administration. The Federal Government urgently needs this high quality research and development organization so that it can get working on an expanded and better balanced research and development effort for <u>all</u> sources of energy. The combination of FEA for policy and operations, and ERDA for R&D will give us the powerful institutions we now lack to carry the Federal Government's growing responsibilities to the Nation in the most effective manner.

There is one additional matter, not covered by the Federal Energy Administration bill, which I would like to bring to your attention. It seems clear that we will need waiver authority with respect to the "Conflict of Interest" statutes - (Sections 203, 205, 208, and 209 of title 18 of the United States Code), since we will have to call a limited number of outside experts and executives into the Government to help plan and implement our energy production, conservation, and control programs. While we can call some of these people into Government service for up to 130 days in an advisory role without their having to divest themselves of their holdings, positions, or retirement rights, there are going to be alimited number of cases in which we will need these uniquely qualified individuals for periods in excess of 130 days and we will need them in line rather than advisory positions.

We have informally submitted draft provisions of this type to both this Committee and the House Committee in connection with S. 2589. We are, of course, willing to work with the Committees and their staffs in preparing mutually acceptable provisions. I would point out that this request is not without precedent since the Congress granted such a waiver under Section 204 of the Economic Stabilization Act of 1970 for members of the Pay Board, Price Commission, and other comparable entities created to carry out the stabilization program (P.L. 92-210). We are hopeful that such a provision will be added to S. 2589 while that bill is being considered in the House. If so, we urge that the Senate conferees accept it. We would not, of course, object to the inclusion of such a provision in the bill you are now considering.

Conclusion

In closing, I would point out that by placing all energy policy and implementation under one roof, we will make sure that in the short run we will institute policies and programs that will minimize the economic impact of this shortage, while providing assistance and incentives for the longer-run to build the necessary facilities to accomplish our goal of self-sufficiency.

This will require two things. First, strong Government leadership, and, secondly, and most important, the continuing cooperation of the American people. Americans traditionally respond to a crises in a patriotic way. This is what has made our country so great. This way we will put policies and programs into place to bring on the alternate sources of energy in order to assure us that we will never again be subject to economic and political blackmail by any foreign power. We have the capacity and the resources to meet our energy needs if only we take the proper steps -- and take them now.

Thank you.

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7-21

FOR IMMEDIATE RELEASE DECEMBER 7, 1973

FEDERAL ENERGY OFFICE URGES USE OF COAL BY UTILITIES

William E. Simon, newly appointed Administrator of the Federal Energy Office, yesterday sent telegrams to 19 utilities on the Atlantic Coast urging them to convert 26 electric power plants from residual fuel oil to coal. "Converting all 26 plants would result in fuel savings equivalent to about 250,000 barrels of oil per day," Simon said, "and the program must get under way at once if we are to realize these savings."

Shortages of residual fuel oil (industrial fuel) have been estimated to be about 860,000 barrels per day nationwide for the first three months of 1974, but 72 percent of this shortage will impact on the Atlantic Coast.

Simon said the newly formed Federal Energy Office will work closely with the Environmental Protection Agency to facilitate granting variances from environmental standards for the 26 plants. He also stated in the telegram that he plans to incorporate the coal-switching program into the mandatory oil allocation program. This would allow the Federal Energy Office to allocate these residual oil savings to other users unable to convert to coal for environmental or technical reasons.

Today, Mr. Simon is contacting 40 additional utilities throughout the country to determine their capability of converting from residual fuel oil to coal at approximately 60 power plants. This telegram, Mr. Simon said, also asks the utilities to outline the time schedules required for this conversion. Further, Mr. Simon promised the full cooperation of appropriate Federal agencies to help solve any problems these companies may encounter in their efforts to convert to coal.

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Temporary telephone numbers of Federal Energy Office public affairs are:

General Information	395-3538
Press interviews	395-3497
Allocation Program	395-4673

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

222

FOR RELEASE
NOON, FRIDAY, DECEMBER 7, 1973 December 7, 1973

MINT MAY SWITCH TO ALUMINUM CENTS

Because of the rising price of copper, the Treasury Department is requesting Congress to grant standby authority to the Secretary of the Treasury to change the present copper alloy of the one cent piece to an aluminum alloy, Mrs. Mary Brooks, Director of the Mint, announced today.

Upon approval of the legislation and determination by the Secretary of the Treasury that the use of copper in the cent is no longer practicable, the Mint would go into production of aluminum one cent pieces. Tests are presently being conducted on seven different aluminum alloys to determine the most coinable alloy to achieve a quality 96 percent aluminum alloy cent.

It is expected it would take at least three months to produce and secure sufficient quantity of the aluminum alloy before the Mint could go into the production of the aluminum cent. Until such time as the Mint's bronze supply would be exhausted, copper one cent pieces would continue to be produced.

Current law requires the cent to be made of a bronze alloy consisting of 95 percent copper and 5 percent zinc. This past year, the price of copper has more than doubled. In recent weeks, the price has exceeded $1.00 per pound compared with a price of 50 cents a pound last January.

With copper prices fluctuating around $1.00 per pound, the metal cost of the cent is about .7 cent. Manufacturing and transportation expenses amount to approximately .2 cent for each piece, making the cost of the one cent piece .9 cent.

If the price of copper increased to $1.20 per pound, the cost of making a cent would exceed the face value of the coin. Should the price exceed $1.50 per pound, the metal value alone of the one cent piece would be higher than the face value and hoarding and melting of the cents for their metal content could result.

Taking the cent out of circulation in this manner would cause a coin shortage and place an intolerable burden on the Mint's production facilities. Last year, the Mint produced 9 billion coins of which 7 billion pieces were cents. Thirty billion cents are estimated to be currently in circulation. This increases the Mint's concern if replacement had to be added to current yearly production.

In preparing for future eventualities, the Mint sometime ago initiated a study of substitute coinage metals. This recently completed study reveals that an aluminum alloy would be the most practical alternative to the bronze cent. It is durable, corrosion resistant and has proved an acceptable coinage metal in 36 countries of the free world where pure aluminum or aluminum alloy coins circulate.

The change from copper to aluminum cents would also result in at least a $40 million saving in a year -- a saving that would be returned to the general fund of the Treasury to the benefit of all the taxpayers.

From a pound of aluminum currently selling at 30 cents a pound, the Mint could produce 500 cents compared to 150 cents from a pound of copper. This would make the metal cost of an aluminum cent .07 cent -- or one-tenth of the metal cost of the present copper cent.

An aluminum cent weighs 30 percent of a bronze cent. The lower weight of the aluminum needed to make a cent of the same size as the copper cent assures that the metal cost would remain significantly lower than its face value for sometime to come.

A 50 percent energy saving in cent strip production and transportation would be an added advantage during the current energy crisis.

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THE SECRETARY OF THE TREASURY
WASHINGTON 20220

223

DEC 7 1973

Dear Mr. President:

There is transmitted herewith a draft bill "To authorize the Secretary of the Treasury to change the alloy and weight of the one-cent piece."

Section 3515 of the Revised Statutes, as amended (31 U.S.C. 317), now requires that the alloy of the one-cent piece be 95% copper and 5% zinc and that it weigh 48 grains. The draft bill would authorize the Secretary, when he determines that the use of copper in the one-cent piece is no longer practicable, to change the alloy to not less than 96% aluminum and such other metals as he shall determine, and to prescribe the weight of the one-cent piece composed of such alloy.

The proposed legislation is necessitated by the steadily rising price of copper, which has increased from approximately fifty cents per pound in January 1973 to almost one dollar by October of this year. The value of copper content of the one-cent piece has correspondingly increased to 0.6¢ per piece, to which manufacturing and transportation costs add another 0.2¢ per piece. If the price of copper rises to $1.20 per pound, the cost of the metal, together with the production costs, will exceed the face value of the one-cent coin. If the price of copper rises to $1.50 per pound, the metal value of the coin alone will exceed one cent and thus hoarding of pennies will become profitable.

The proposed legislation would permit the Secretary of the Treasury to change the alloy of the one-cent piece when the price or availability of copper no longer makes its use practicable in pennies, thereby preventing hoarding and the resultant shortage in pennies.

224

There is enclosed a comparative type which shows the changes the draft bill would make in existing law.

It would be appreciated if you would lay the draft 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 from the standpoint of the Administration's program to the submission of this proposed legislation to the Congress.

Sincerely yours,

George P. Shultz

George P. Shultz

The Honorable
Gerald R. Ford
President of the Senate
Washington, D. C. 20510

Enclosures -2

225

A BILL

To authorize the Secretary of the Treasury to change the alloy and weight of the one-cent piece.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 3515 of the Revised Statutes, as amended (31 U.S.C. 317), is further amended by designating the existing section as subsection (a) and by adding a new subsection (b) to read as follows:

"(b) Whenever the Secretary of the Treasury determines that the use of copper in the one-cent piece is no longer practicable, he may change the alloy of the one-cent piece to not less than 96 per centum of aluminum and such other metals as he shall determine. The one-cent piece authorized by this subsection shall have such weight as may be prescribed by the Secretary."

COMPARATIVE PRINT SHOWING CHANGES IN EXISTING LAW
MADE BY DRAFT BILL

Changes in existing law proposed to be made by the draft bill are shown as follows (existing law proposed to be omitted is enclosed in brackets; new matter is underscored):

Section 3515 of the Revised Statutes, as amended
(31 U.S.C. 317)

Sec. 3515. (a) The minor coins of the United States shall be a five-cent piece, a three-cent piece, and a one-cent piece. The alloy for the five and three cent pieces shall be of copper and nickel, to be composed of three-fourths copper and one-fourth nickel. The alloy of the 1-cent piece shall be 95 per centum of copper and 5 per centum of zinc. The weight of the piece of five cents shall be seventy-seven and sixteen-hundredths grains troy; of the three-cent piece, thirty grains; and of the one-cent piece, forty-eight grains.

(b) Whenever the Secretary of the Treasury determines that the use of copper in the one-cent piece is no longer practicable, he may change the alloy of the one-cent piece to not less than 96 per centum of aluminum and such other metals as he shall determine. The one-cent piece authorized by this subsection shall have such weight as may be prescribed by the Secretary.

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FOR IMMEDIATE RELEASE DECEMBER 7, 1973

ADMINISTRATOR SIMON MEETS TOP TRUCKERS ON INTERSTATE JAM-UPS

William E. Simon, newly appointed Administrator of the Federal Energy Office, today confronted the problem of truck stoppage of interstate highway traffic by meeting with Teamster President Frank Fitzsimmons, American Trucking Association President William A. Bresnahan, National Association of Truck Stop Operators Executive Vice President Lloyd Golding, and other top industry officials.

Mr. Simon, labeled the direct talks with the top truckers "frank and fruitful" as he listened to complaints from the industry. He promised a direct personal involvement to help solve the problems.

Some truckers have staged a series of traffic crunching tieups on various interstate highways across the Nation this week. "It is apparent that severe and frustrating problems do exist and I intend to help find the solutions with help from others on the Federal and local levels of government," Administrator Simon said following the meeting.

A list of other attendees is attached.

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Temporary telephone numbers of Federal Energy Office Public Affairs are:

	General Information	395-3538
	Press Interviews	395-3497
	Allocation Program	395-4673

Claude Brinegar
Secretary of Transportation
U.S. Department of Transportation

John W. Barnum
Under Secretary of Transportation
U.S. Department of Transportation

Charles Emley
Associate Director for Operations
Cost of Living Council

John Murphy
Chief Executive Officer
Gateway Transportation Co., Inc.

John C. Sawhill
Deputy Administrator
Federal Energy Administration

Richard Schubert
Under Secretary
U.S. Department of Labor

Frank G. Zarb
Assistant Director
Office of Management and Budget

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228

FOR IMMEDIATE RELEASE DECEMBER 8, 1973

SIMON TO INVESTIGATE TRUCK FUEL PRICE GOUGING

William E. Simon, Administrator of the Federal Energy Office, met today with Donald Alexander, Commissioner of the Internal Revenue Service (IRS) and directed IRS to immediately put teams of agents on the highways throughout the United States to investigate possible price gouging on fuel for interstate trucks. The IRS agents will investigate those truck stops where price gouging has been reported, and make spot checks at other locations. IRS enforces price controls for the Cost of Living Council.

"I am also asking," Simon said, "the cooperation of the trucking industry and the drivers themselves, to help us identify those fuel suppliers who have raised prices illegally. We need the truckers' cooperation to solve the problem. The truckers have an invaluable communications network, and should use their citizens-band radios to notify their dispatchers of illegal prices, so that the dispatchers can call the nearest IRS office. IRS will then send agents to the scene.

"I faithfully promise that we will promptly take action against all those who are exploiting the current fuel shortage.

"Last night I met with Teamster President Frank Fitzsimmons, American Trucking Association President William A. Bresnahan, and other top industry officials, to gain a better understanding of this problem. I told them that we have a definite fuel shortage in this country, and it must be shared by everyone, but we must get fuel to the priority users first.

"As the head of the Federal Energy Office, I want to emphasize that we are determined to act rapidly and decisively whenever and wherever problems like this arise."

-FEO-

Temporary telephone numbers of Federal Energy Office Public Affairs are

General Information	395-3538
Press Interviews	395-3497
Allocation Program	395-4673

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229

FOR IMMEDIATE RELEASE DECEMBER 9, 1973

ENERGY ADMINISTRATOR SIMON CREATES NEW REGIONAL FEO OFFICES NAMES TEN INTERIM DIRECTORS

William E. Simon, Federal Energy Office Administrator, moving swiftly to help alleviate the Nation's energy shortage, today announced creation of ten regional offices with full-time interim directors. A list of the regional offices and interim directors is attached.

"I believe we must move rapidly to support the momentum generated by the creation of the new energy office this week to deal with priority administrative problems and initiate new procedures," the Administrator stated.

The Administrator phoned each of the regional directors Sunday afternoon. He congratulated the directors for being appointed to these "vital positions" and made it clear that each of them would be senior partners of the new Federal Energy Office team.

"Your performance in the regional offices will be a major factor in the success of our programs," the Administrator said. He expressed his confidence in the new directors' ability to handle their difficult assignments and then listed the characteristics he felt would be essential for them to carry out their responsibilities.

"Each of you," he said, "must be more than highly competent executives. You must be openminded, accessible, and fair in all your dealings with the many people and organizations with which you will be working." The most forceful point the Administrator made during this call was the need to establish and maintain total credibility

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with the public. "We must have the trust and confidence of the American people if we are going to get the cooperation and support we need to carry out our Federal programs," he emphasized.

To further coordinate national energy policy and encourage new initiatives by State and local governments, Simon will call the newly appointed interim directors to Washington for discussions of program execution and ways to assist the public.

While intensively engaged in building the Federal Energy Office, Administrator Simon alerted his new directors that their present situation requires them to cope with a great many day-to-day crises. "Your ingenuity, initiative, and tolerance are essential and we are all counting on you," he stressed.

He urged a team effort "to get our operations coordinated and understood by the public so that we can go on to accomplish our mission successfully."

The announcement of the regional directors and offices comes just five days after President Nixon created the new energy office and appointed Mr. Simon as Administrator.

Administrator Simon has already set up new temporary offices for the Federal Energy Office, appointed additional staff to bolster energy programs, initiated new fuel allocation reviews, met with public groups to hear their complaints, testified on new legislation to create the agency and a new national policy, and has now created ten new regional offices.

Attachment
list of interim
regional directors

-FEO-

Temporary telephone numbers of Federal Energy Office Public Affairs:
General Information: 395-3538 Press Interviews: 395-3497
Allocation Program: 395-4673

Federal Energy Office (FEO) Interim Regional Directors

238

REGION I 150 Causeway St. Boston, Mass. 02114 Maine, New Hampshire, Vermont, Rhode Island, Massachusetts, Connecticut Area Code 617 - 223-5195	Larry Rogers, Manpower Administrator Department of Labor (DOL)
REGION II 36 Federal Plaza New York, N. Y. 10007 New York, New Jersey, Virgin Islands, Puerto Rico Area Code 212 - 264-1184	Gerald Teretsky, Regional Administrator General Services Administration (GSA)
REGION III Federal Office Bldg. 600 Arch St. Philadelphia, Pa. 19106 Pennsylvania, Delaware, Virginia, West Virginia, Maryland, District of Columbia Area Code 215 - 597-9330	J. A. Lasala, Dep. Reg. Administrator Department of Housing & Urban Development (HUD). Also Acting Area Director, HUD Philadelphia area.
REGION IV 1718 Peachtree St., N. E. Atlanta, Ga. 30309 N. Carolina, S. Carolina, Georgia, Florida, Alabama, Mississippi, Tennessee, Kentucky, Canal Zone Area Code 404 - 876-2492	Ken Dupuy, Office of Oil and Gas (OOG) Washington, D. C. Acting Reg.Dir. Reg. V Office of Petroleum Allocation (OPA)
REGION V Federal Office Bldg. 536 So. Clark St. Chicago, Ill. 60605 Michigan, Illinois, Wisconsin, Minnesota, Indiana, Ohio Area Code 312 - 591-6025	George Delegianis, Assistant Regional Commissioner, Internal Revenue Service (IRS), Region V. Chief of Field Audit Branch, Manhattan, N. Y.
REGION VI 212 N. St. Paul St. Dallas, Tex. 75201 Texas, Louisiana, Arkansas, Oklahoma, New Mexico Area Code 817 - 387-5811	Col. Delbert Fowler, USA, Ret., Urban Systems Development Corp. Nominated by OPA as Regional Director.
REGION VII Federal Office Bldg. 911 Walnut Street, Rm 2511 Kansas City, Mo. 64106 Iowa, Nebraska, Missouri, Kansas Area Code 816 - 374-2037	James Newman, Acting OPA Regional Dir., as of December 3. Formerly acting police chief in Kansas City.
REGION VIII Denver Federal Center Denver, Colorado 80225 Montana, Wyoming, No. Dakota, So. Dakota, Colorado, Utah Area Code 303 - 234-4936	Dudley Faver, Maj. Gen., USAF, Ret. Presently Acting Regional Director, OPA, as of December 4.
REGION IX Fox Plaza Bldg., Suite 250 1390 Market Street San Francisco, California 94102 California, Nevada, Arizona, Hawaii, American Samoa, Guam, Trust Territory of the Pacific Islands Area Code 415 - 556-7651	William Arntz, Former OMB examiner.
REGION X Federal Office Bldg. 909 First Ave., Rm 3098 Seattle, Wash. 98104 Area Code 206-442-7261 Washington, Alaska, Oregon, Idaho	Jack Robertson, Engineer with management, business, and research experience. Currently Vice President and Business Manager of Mathematical Sciences Northwest, Inc.

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

231

FOR IMMEDIATE RELEASE December 10, 1973

SAVINGS BOND RATE UPPED TO 6%

The White House announced today that all Series E and H Savings Bonds purchased on or after December 1 will earn 6% when held to maturity. Savings Bonds have been earning 5-1/2% when held to maturity.

The annual rate on Savings Bonds and Savings Notes now outstanding is also increased by the same amount. Twenty-three million Americans presently holding more than $60 billion in Savings Bonds and Notes will receive an additional 1/2% return on their present Bonds. No action on the part of Savings Bond or Note holders is necessary to take advantage of the higher rate.

Commenting on the increase, Treasury Secretary George P. Shultz noted that the Savings Bond program has been a cornerstone of Treasury's debt management program and that the new rate was made possible when Congress, while providing a new debt limit, also clarified the authority of the Treasury to pay the higher rate.

The maturity of Series E Bonds sold after December 1 will be shortened from 5 years 10 months to 5 years. The purchase price of new Bonds will remain unchanged, and Bonds will remain available with maturity values from $25 to $1,000.

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232

FACT SHEET

UNITED STATES SAVINGS BONDS

IMPROVEMENTS IN YIELD EFFECTIVE DECEMBER 1, 1973

SERIES E

1. Series E Bonds, purchased on or after December 1, 1973 earn 6 percent interest, compounded semiannually, when held to maturity of 5 years.

2. Yields on outstanding Series E Bonds -- both new and older issues -- are raised by 1/2 of 1 percent for their remaining life to maturity, effective with the first semiannual interest period, beginning on or after December 1, 1973.

NOTE -- Yields on U. S. Savings Notes -- Freedom Shares -- are also raised by 1/2 of 1 percent for their remaining life effective with the first semiannual interest period, beginning on or after December 1, 1973. "Freedom Shares" were sold, in conjunction with E Bonds, from May 1, 1967, through June 30, 1970.

SERIES H

1. Series H Bonds, purchased on or after December 1, 1973, will provide an average yield of approximately 5.6 percent during the first 5 years, and 6.5 percent during the remaining 5 years to maturity, providing an overall yield of 6 percent, from date of issue to date of maturity.

2. Outstanding H Bonds receive a 1/2 percent increase in yield, for semiannual interest periods, beginning on or after December 1, 1973.

233

QUESTIONS AND ANSWERS ABOUT IMPROVED U. S. SAVINGS BONDS --

The yield on Series E and H Bonds is improved, retroactive to December 1, 1973.

Q. What Savings Bonds are affected by the new 6-percent rate?

A. All Series E and H Savings Bonds -- both new and outstanding issues.

Q. How is interest paid on the Bonds?

A. Series E Bonds are accrual-type securities, sold at 75 percent of face value. Interest is paid by gradual increase in redemption value. E Bonds now mature in 5 years; older E Bonds had various original maturity lengths, ranging from 5 years and 10 months, to 10 years. Series H Bonds are current-income securities, sold at par (face) value. Interest is paid by semiannual checks issued by the Treasury. H Bonds mature in 10 years.

Q. What about the higher interest rate?

A. Series E Bonds now on sale return 6 percent interest, compounded semiannually, when held to maturity of 5 years. They earn 4-1/2 percent the first year; thereafter, interest will increase on a graduated scale, raising the yield to 6 percent, from issue date to maturity.

Series H Bonds now on sale also return 6 percent, when held to maturity of 10 years. They earn 5 percent the first year, 5.80 percent the next 4 years, and 6-1/2 percent the second 5 years -- raising the rate to an average of 6 percent for the 10-year period.

Q. What about my older E and H Bonds? Will they also pay more, or should I cash them in and buy new Bonds?

A. Older E and H Bonds have also had their yields improved, so there would be no advantage in redeeming your present holdings to buy new Bonds. Here's how older Bonds are affected by the higher rate --

SERIES E BONDS --

* All outstanding Bonds will receive a 1/2-percent increase in yield for semiannual interest periods, beginning on or after December 1, 1973, payable upon redemption.

SERIES H BONDS --

* All outstanding Bonds will receive a 1/2-percent increase in yield for semiannual interest periods, beginning on or after December 1, 1973, payable in the form of increased semiannual interest payments.

Q. Is there any limit on the amount of Savings Bonds one may buy?

 234

A. Yes. The annual limit on Series E Bonds is $5,000, <u>issue price</u>; the yearly limit on Series H Bonds is $5,000, <u>face amount</u>.

Q. Are outstanding "Freedom Shares" also affected by the new rate?

A. Yes. All outstanding "Freedom Shares" will receive a 1/2-percent increase in yield for semiannual interest periods, beginning on or after December 1, 1973, payable upon redemption.

-- USSB --

TABLE 1

BONDS BEARING ISSUE DATES BEGINNING DECEMBER 1, 1973

Issue price	$18.75	$37.50	$56.25	$75.00	$150.00	$375.00	$750.00	$7500	Approximate investment yield (annual percentage rate)		
Denomination	25.00	50.00	75.00	100.00	200.00	500.00	1000.00	10000 1/			
Period (years and months after issue)	(1) Redemption values during each half-year period (values increase on first day of period)								(2) From issue date to beginning of each ½-yr. period	(3) From beginning of each ½-yr. period to beginning of next ½-yr. pd.	(4) From beginning of each ½-yr. period to maturity
									Percent	Percent	Percent
0-0 to 0-6	$18.75	$37.50	$56.25	$75.00	$150.00	$375.00	$750.00	$7500	----	3.73	6.00
0-6 to 1-0	19.10	38.20	57.30	76.40	152.80	382.00	764.00	7640	3.73	5.34	6.25
1-0 to 1-6	19.61	39.22	58.83	78.44	156.88	392.20	784.40	7844	4.54	5.00	6.37
1-6 to 2-0	20.10	40.20	60.30	80.40	160.80	402.00	804.00	8040	4.69	4.98	6.57
2-0 to 2-6	20.60	41.20	61.80	82.40	164.80	412.00	824.00	8240	4.76	5.24	6.83
2-6 to 3-0	21.14	42.28	63.42	84.56	169.12	422.80	845.60	8456	4.86	5.39	7.15
3-0 to 3-6	21.71	43.42	65.13	86.84	173.68	434.20	868.40	8684	4.95	5.53	7.59
3-6 to 4-0	22.31	44.62	66.93	89.24	178.48	446.20	892.40	8924	5.03	5.92	8.29
4-0 to 4-6	22.97	45.94	68.91	91.88	183.76	459.40	918.80	9188	5.14	6.09	9.48
4-6 to 5-0	23.67	47.34	71.01	94.68	189.36	473.40	946.80	9468	5.25	12.93	12.93
5-0 2/	25.20	50.40	75.60	100.80	201.60	504.00	1008.00	10080	6.00	----	----

1/ Available only to trustees of employees' savings and savings and vacation plans. 2/ Maturity value reached at 5 years and 0 months after issue.

SERIES H - TABLE 1

Bonds Bearing Issue Dates Beginning December 1, 1973

Face value	Issue price..............	$500	$1,000	$5,000
	Redemption value 1/......	500	1,000	5,000
	Maturity value..........	500	1,000	5,000

Approximate investment yield (annual percentage rate)

Period of time bond is held after issue date	(1) Amounts of interest checks for each denomination			(2) From issue date to each interest payment date	(3) For half-year period preceding interest payment date	(4) From each interest payment date to maturity
				Percent	Percent	Percent
½ year..........................	$10.50	$21.00	$105.00	4.20	4.20	6.12
1 year..........................	14.50	29.00	145.00	4.99	5.80	6.15
1½ years........................	14.50	29.00	145.00	5.25	5.80	6.17
2 years.........................	14.50	29.00	145.00	5.38	5.80	6.20
2½ years........................	14.50	29.00	145.00	5.46	5.80	6.24
3 years.........................	14.50	29.00	145.00	5.51	5.80	6.28
3½ years........................	14.50	29.00	145.00	5.55	5.80	6.32
4 years.........................	14.50	29.00	145.00	5.58	5.80	6.37
4½ years........................	14.50	29.00	145.00	5.60	5.80	6.44
5 years.........................	14.50	29.00	145.00	5.62	5.80	6.51
5½ years........................	16.28	32.56	162.80	5.69	6.51	6.51
6 years.........................	16.28	32.56	162.80	5.75	6.51	6.51
6½ years........................	16.28	32.56	162.80	5.80	6.51	6.51
7 years.........................	16.28	32.56	162.80	5.84	6.51	6.51
7½ years........................	16.28	32.56	162.80	5.87	6.51	6.51
8 years.........................	16.28	32.56	162.80	5.91	6.51	6.51
8½ years........................	16.28	32.56	162.80	5.93	6.51	6.51
9 years.........................	16.28	32.56	162.80	5.96	6.51	6.51
9½ years........................	16.28	32.56	162.80	5.98	6.51	6.51
10 years (maturity).............	16.28	32.56	162.80	6.00	6.51	--

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236

FOR IMMEDIATE RELEASE December 10,1973

EMERGENCY LOAN GUARANTEE BOARD
APPROVES LOCKHEED LOAN

The Emergency Loan Guarantee Board approved today 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 under Government guarantee, which, when drawn down, will bring total borrowings permitted 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 a maximum of $250 million under Government guarantee.

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

237

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

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing March 14, 1974		:	26-week bills maturing June 13, 1974	
	Price	Equivalent annual rate	:	Price	Equivalent annual rate
High	98.146 a/	7.335%	:	96.211	7.495%
Low	98.123	7.425%	:	96.184	7.548%
Average	98.133	7.386% 1/	:	96.193	7.530% 1/

a/ Excepting one tender of $500,000

Tenders at the low price for the 13-week bills were allotted 86%.
Tenders at the low price for the 26-week bills were allotted 52%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 43,365,000	$ 32,035,000	:	$ 25,975,000	$ 9,340,000
New York	2,894,705,000	1,955,805,000	:	2,620,945,000	1,505,195,000
Philadelphia	29,380,000	29,255,000	:	52,970,000	9,495,000
Cleveland	48,085,000	47,545,000	:	30,455,000	17,905,000
Richmond	30,330,000	28,330,000	:	22,635,000	11,925,000
Atlanta	26,160,000	24,900,000	:	19,335,000	13,210,000
Chicago	256,140,000	197,445,000	:	408,135,000	81,240,000
St. Louis	46,165,000	28,905,000	:	69,755,000	38,405,000
Minneapolis	29,500,000	22,500,000	:	32,255,000	12,185,000
Kansas City	31,125,000	26,730,000	:	23,315,000	22,535,000
Dallas	36,870,000	19,970,000	:	54,400,000	10,200,000
San Francisco	160,925,000	87,125,000	:	193,915,000	68,970,000
TOTALS	$3,632,750,000	$2,500,545,000 b/		$3,554,090,000	$1,800,605,000 c/

b/ Includes $332,620,000 noncompetitive tenders accepted at the average price.
c/ Includes $184,825,000 noncompetitive tenders accepted at the average price.
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 7.63 % for the 13-week bills, and 7.94% for the 26-week bills.

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238

FOR IMMEDIATE RELEASE DECEMBER 11, 1973

ADMINISTRATOR SIMON SHEDS LIGHT ON CHRISTMAS TREES

William E. Simon, newly appointed Administrator of the Federal Energy Office, today announced his position on the use of Christmas tree lights during the holiday season. "Promotional, display, and ornamental lighting of homes and apartments will be banned as soon as I receive authority to enforce this regulation," he said. Administrator Simon has already called for adherence to these proposed regulations on a voluntary basis.

"Many patriotic citizens, however, have interpreted the ban on ornamental lighting to include the traditional lights on Christmas trees inside their homes," he explained, "and I feel this would be carrying energy conservation above and beyond the call of duty."

The Administrator said families should be sure to turn off lights in other parts of the house to compensate for the electricity being used to light their trees. He also urged everyone to eliminate exterior lights around their homes this holiday season, and to limit the use of Christmas tree lights to those times when the family is gathered together for holiday festivities.

"For most American families, a beautifully decorated tree with strings of colorful lights has been the focal point of the good fellowship that makes Christmas such a special holiday. I do not want American families to lose the festive spirit of Christmas because of the energy crisis," the Administrator said, "especially when good conservation habits can more than make up for the electricity they will use to light their trees."

Temporary telephone numbers of Federal Energy Office public affairs:

General Information	395-3537
Press Interviews	395-3497
Allocation Program	395-4672

E-73-6

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

239

FOR IMMEDIATE RELEASE December 11, 1973

SCHEDULE FOR TREASURY'S REGULAR WEEKLY
BILL AUCTIONS DURING THE HOLIDAY SEASON

The Treasury's last two regular weekly bill auctions scheduled for this year will be held on Friday, December 21, and Friday, December 28, rather than on the usual Monday. Announcements inviting tenders will be made on Friday, the 14th, and Friday, the 21st. The payment and delivery day for the bills will be Thursday as usual.

Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

240

FOR IMMEDIATE RELEASE

December 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 December 20, 1973, in the amount of $4,303,185,000 as follows:

91-day bills (to maturity date) to be issued December 20, 1973, in the amount of $2,500,000,000, or thereabouts, representing an additional amount of bills dated September 20, 1973, and to mature March 21, 1974 (CUSIP No. 912793 TD8) originally issued in the amount of $1,803,300,000 the additional and original bills to be freely interchangeable.

182-day bills, for $1,800,000,000, or thereabouts, to be dated December 20, 1973, and to mature June 20, 1974 (CUSIP No. 912793 TS5).

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, December 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

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

141

FEDERAL ENERGY OFFICE
Public Affairs
4001 New Executive Office Building
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FOR IMMEDIATE RELEASE DECEMBER 11, 1973

FEDERAL ENERGY OFFICE CREATES SPECIAL ECONOMIC IMPACT GROUP

Deputy Administrator John Sawhill today announced the creation of a Special Economic Impact Office in the newly formed Federal Energy Office. The Economic Impact Office will work closely with the President's Council of Economic Advisors and other Federal agencies to minimize the impact of the energy crisis on American industry.

In his statement before the Joint Economic Committee, Mr. Sawhill also urged swift legislative action on several Administration programs. He stressed that industry would be given high priority for scarce energy supplies. "This does not mean that commercial and industrial users will not have fuel cutbacks. A priority allocation is not a license to waste energy. It is a certificate of responsibility," he said.

Mr. Sawhill also told the Congressional committee there must be less "scare talk" about the energy crisis and more accurate information. He indicated that within 60 days the Federal Energy Office would be asking Congress for legislation that would enable the Government to get more timely and adequate information from industry, primarily with respect to oil. He said total credibility must be maintained on energy issues and programs in order to gain the public support that is essential if the Federal Energy Office is to achieve its goals.

Temporary telephone numbers of Federal Energy Office public affairs:

General Information	395-3537
Press Interviews	395-3497
Allocation Program	395-4672

E-73-7

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

242

FOR RELEASE 6:30 P.M.

December 12, 1973

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for $1.8 billion of 52-week Treasury bills to be dated December 18, 1973, and to mature December 17, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:

High	- 93.046	Equivalent annual rate 6.878%	
Low	- 93.013	Equivalent annual rate 6.910%	
Average	- 93.043	Equivalent annual rate 6.881%	1/

Tenders at the low price were allotted 72%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	
Boston	$ 29,325,000	$ 1,325,000	
New York	2,990,730,000	1,639,370,000	
Philadelphia	625,000	625,000	
Cleveland	8,095,000	3,005,000	
Richmond	9,955,000	1,455,000	
Atlanta	7,755,000	2,055,000	
Chicago	310,055,000	110,900,000	
St. Louis	38,220,000	17,020,000	
Minneapolis	920,000	920,000	
Kansas City	2,910,000	2,910,000	
Dallas	23,940,000	1,940,000	
San Francisco	163,320,000	18,720,000	
TOTALS	$3,585,850,000	$1,800,245,000	2/

1/ This is on a bank discount basis. The equivalent coupon issue yield is 7.36%.

2/ Includes $ 30,695,000 noncompetitive tenders accepted at the average price.

243

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FOR IMMEDIATE RELEASE DECEMBER 12, 1973

NEW PETROLEUM ALLOCATION RULES PROPOSED
BY FEDERAL ENERGY OFFICE

Keeping food on the table, people at work, and maintaining the health of the Nation are key goals of the Mandatory Petroleum Allocation regulation proposed today by William E. Simon. "This is not rationing," Simon said, "but rather a system to ensure equitable distribution at the wholesale level."

The newly appointed Administrator of the Federal Energy Office said that the suggested allocation programs cover the entire barrel of oil -- from crude at the wellhead to all refined petroleum products.

The regulation is to become effective December 27, 1973 after consideration of comments from the public received through December 20 at 5:00 PM Eastern Standard Time.

"If, in such a monumental undertaking, there could be a key word," Simon said, "that word is flexibility. These allocation proposals are designed to supply the essential petroleum needs of all Americans -- from the average wage earner, the businessman, the farmer, the physician, to the nursing home resident."

The proposed regulation covers seven areas: crude oil; propane and butane; gasoline; middle distillates; aviation fuels residual fuel oil, and other products. Existing mandatory programs, covering propane and middle distillates only, remain in effect until December 27, 1973 when the Emergency Petroleum Allocation Act of 1973 and the regulation covering that Act become effective.

E-73-8

Program highlights:

Crude Oil

The proposed program specifies a mandatory program for the allocation of crude oil to refiners and a mandatory control of refinery yield, to provide refined products conforming to the demands of the various allocation systems proposed.

The refinery control program requires each refiner to limit gasoline production to 75 percent of the 1972 base period. This percentage may be revised quarterly by the Federal Energy Office. Refiners are urged to maximize production of distillates, residual fuel oils and petrochemical stocks in their resulting product mix.

Propane and Butane

The mandatory allocation program for propane, butane, and propane-butane mixes is intended to (1) meet the needs, within limits, of priority customers; (2) allocate equitably to nonpriority customers; and (3) constrain shipments of propane from merchant storage facilities.

Gasoline

In the allocation for gasoline (excluding aviation fuel), the following users are to be allocated 100 percent of current requirements: emergency services, fuel production, public passenger transportation and agriculture. Business users, including nonprofit and government users, are allocated 100 percent of their 1972 use. All others are allocated not more than 90 percent of their 1972 use.

"The gasoline allocation program does not include direct end-user rationing," Simon emphasized.

244

Middle Distillates

The allocation program for middle distillate fuels establishes two categories of users.

Category I, users for fuel production and for public passenger transportation are allocated 100 percent of current requirements, subject to ceiling limitations. Space heating users are allocated 100 percent of current requirements, consistent with a mandatory reduction in indoor temperatures. Vital community services and medical, dental and nursing services are allocated 110 percent of their 1972 use.

Category II users for the following purposes are allocated 110 percent of their 1972 use: industrial and manufacturing, food production and processing and cargo, freight, and mail hauling. All other users are allocated 100 percent of their 1972 use.

Aviation Fuels

There are three categories of aviation uses. Among civil air carriers, domestic lines are to be allocated 95 percent of their 1972 use until January 7, 1974, and 85 percent thereafter. Small regional airlines are to be allocated 95 percent of their 1972 use until January 7, 1974, and 90 percent thereafter. International carriers are allocated 100 percent of 1972 use before January, 7, 1974, and 85 percent therafter.

In general aviation, commercial and industrial users are allocated 90 percent of their 1972 use; business and executive users 80 percent; and personal pleasure and instructional users 70 percent of their 1972 use. Nonmilitary Federal agencies and States are allocated 85 percent of their 1972 use.

Residual Fuel Oil

Users for energy production, food production, essential community services, marine shipping and heating for health services will receive 100 percent of current needs. Heating users will be allocated residual fuel oil on the basis of a schedule of mandatory reductions in ambient inside temperature.

The electric utility industry will be allocated residual fuel oil on the basis of a computation to be made by the Federal Energy Office that will equalize possible electric power cutbacks.

Other Products

The seventh area covers all other petroleum products including lubricants and petrochemical feedstocks. With the exception of the petrochemical feedstocks, no priorities are specified and for allocations, normal business practices apply. There will be pro rata reductions if demand exceeds supply.

Petrochemical feedstocks allocations are based on up to 120 percent of 1972 base use.

"In order to minimize undesirable economic impact," Simon said, "priority status in the allocations proposed has been given to uses essential to the public health and welfare, with national defense given priority over certain general consumer uses." He gave these examples:

1. Each home, all industries, and all commercial and governmental buildings are expected to conserve energy used for space heating and cooling. Each of these classes is expected to control heating in the winter and air conditioning in the summer to maintain the temperature levels assigned to class. Home thermostats are to be lowered six degrees from last winter; and commercial, industrial, and other users are to lower thermostats 10 degrees.

2. Operators of private cars are expected to conserve fuel by less driving, carpooling, taking mass transportation, and using more energy-efficient vehicles when possible.

3. The Department of Defense shall receive 100 percent of its current requirements essential for mission performance as reviewed and approved in advance by the Administrator, Federal Energy Office.

"The proposed allocation program assumes that petroleum supplies will fall short of unconstrained demand at current prices over a period of years," Simon said. "Allocation as proposed in this program is viewed as a temporary expedient to assure equity, and prevent economic excesses during a period of transition to a more stable long-term solution. Attempts have been made to design the allocation and pricing mechanisms permitting relatively free market conditions in the future and looking toward eventual abandonment of most or all of the allocation mechanisms."

The complete notice of this Federal rulemaking proposal covering allocation, price and procedural regulations will be published in the Federal Register.

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Temporary telephone numbers of Federal Energy Office public affairs:

General Information	395-3537
Press Interviews	395-3497
Allocation Program	395-4672

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

216

FOR IMMEDIATE RELEASE December 13, 1973

SECRETARY SHULTZ SIGNS CHARTER FOR TREASURY HISTORICAL ASSOCIATION

Treasury Secretary George P. Shultz signed the charter establishing the Treasury Historical Association in a small ceremony today at the Main Treasury Building in Washington.

A non-profit organization, the new Association will be devoted to the preservation of the Treasury Building as an National Historic Landmark so dedicated on October 18, 1972. The Treasury edifice at 15th and Pennsylvania Avenues is the third oldest government building in continuous use in the Nation's capital, dating back to 1836, and houses notable examples of architecture and antiques from the Civil War era. It has been the setting for President's Grant's Inaugural Ball and was the locale of President Andrew Johnson's temporary office.

The Historical Association will depend on annual membership dues of $10 and be open to present and former Treasury employees, and to the public interested in maintenance and preservation of Federal landmarks.

In approving the Association, Secretary Shultz noted, "The recent discovery of paintings on the ceilings of executive offices in the Treasury Building enhances the need for an

S-339

(OVER)

organization which will look after and renovate the many treasures and memorabilia within this historic building."

One of the initial projects to be undertaken by the Association will be in restoring the art and artifacts for Treasury's role in forthcoming Bicentennial activities in the Nation's capital.

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

247

FOR IMMEDIATE RELEASE

December 13, 1973

The Treasury Department announced today that the checks it will issue for the new program of supplemental security income payments administered by the Social Security Administration will be gold in color to distinguish them from regular social security checks, which will continue to be green. The distinctive color will enable the recipients, most of whom also receive regular social security payments, to readily identify the type of payment and will facilitate expeditious processing of these checks and any inquiries pertaining to them.

The supplemental security income program was enacted as a part of the Social Security Amendments of 1972, Public Law 92-603, and is a national program of assistance to the aged, blind, and disabled individuals. It replaces the present system of State public assistance payments, although State agencies will be authorized to supplement the Federal assistance levels.

The first payments made under the new program will be dated January 1, 1974. Commercial establishments and financial institutions that regularly cash Treasury checks can expect to begin receiving them early in the month. Initially, about 3.5 million checks will be issued each month under the new program.

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S-340

UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH November 30, 1973 248

(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
[MA]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
[U]NMATURED				
Series E 3/ :				
1941	1,927	1,745	182	9.44
1942	8,506	7,686	820	9.64
1943	13,679	12,380	1,299	9.50
1944	15,955	14,376	1,579	9.90
1945	12,570	11,181	1,389	11.05
1946	5,735	4,951	784	13.67
1947	5,470	4,593	877	16.03
1948	5,673	4,688	985	17.36
1949	5,631	4,578	1,054	18.72
1950	4,944	3,967	978	19.78
1951	4,277	3,431	846	19.78
1952	4,485	3,574	911	20.31
1953	5,141	4,018	1,123	21.84
1954	5,245	4,043	1,202	22.92
1955	5,465	4,176	1,288	23.57
1956	5,283	4,006	1,277	24.17
1957	4,986	3,734	1,252	25.11
1958	4,879	3,563	1,315	26.95
1959	4,579	3,309	1,270	27.74
1960	4,610	3,241	1,369	29.70
1961	4,704	3,191	1,513	32.16
1962	4,581	3,025	1,556	33.97
1963	5,153	3,215	1,938	37.61
1964	5,022	3,138	1,884	37.51
1965	4,911	3,043	1,868	38.04
1966	5,313	3,142	2,170	40.84
1967	5,218	3,074	2,143	41.07
1968	4,956	2,868	2,088	42.13
1969	4,666	2,606	2,060	44.15
1970	4,888	2,432	2,456	52.09
1971	5,629	2,391	3,238	57.52
1972	6,203	2,121	4,081	65.79
1973	4,653	909	3,744	80.46
Unclassified	546	359	187	34.25
Total Series E	195,482	142,755	52,727	26.97
Series H (1952 thru May, 1959) 3/	5,485	4,028	1,457	26.56
H (June, 1959 thru 1973)	9,344	3,201	6,142	65.73
Total Series H	14,829	7,229	7,599	51.24
Total Series E and H	210,311	149,984	60,326	28.68
All Series: Total matured	38,278	38,246	32	.08
All Series: Total unmatured	210,311	149,984	60,326	28.68
All Series: Grand Total	248,589	188,230	60,358	24.28

[1/ Inc]ludes accrued discount.
[2/ Cu]rrent redemption value.
[3/ At] option of owner bonds may be held and will earn interest for additional periods after original maturity dates.

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

FOR IMMEDIATE RELEASE December 14, 1973

TREASURY ANNOUNCES ACTIONS ON TWO INVESTIGATIONS UNDER THE ANTIDUMPING ACT

Assistant Secretary of the Treasury Edward L. Morgan announced today actions on two investigations under the Antidumping Act of 1921, as amended.

In the first case a finding of dumping is being issued and in the second case, there is a final discontinuance of the antidumping investigation. Notice of these decisions will appear in the Federal Register of Monday, December 17, 1973.

In the first case Assistant Secretary Morgan announced that Treasury has issued a dumping finding with respect to elemental sulphur from Canada. On July 24, 1973, the Treasury Department determined that elemental sulphur from Canada was being sold at less than fair value within the meaning of the Antidumping Act. On October 19, 1973, the Tariff Commission advised the Treasury Department that there was injury to a U. S. industry caused by such imports. The dumping finding now automatically follows as the final administrative requirement in antidumping investigations. Dumping duties will be assessed on imports of this merchandise from Canada on which dumping margins are found. During the period of January through September 1973 imports of elemental sulphur from Canada were valued at approximately $6 million.

In the second case, the Treasury announced a final discontinuance of the antidumping investigation on hand-operated plastic pistol-grip liquid sprayers from Korea. These sprayers may be screwed onto a bottle or other receptacle containing the liquid to be sprayed and are used in private homes, service stations, beauty parlors, and have other sundry applications. The tentative discontinuance notice, published on October 15, 1973, stated 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 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.

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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. . ." Interested persons were invited to present their views on this decision before Treasury took final action.

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Department of the TREASURY NEWS

HINGTON, D.C. 20220 TELEPHONE WO4-2041

250

FOR IMMEDIATE RELEASE

December 14, 1973

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $4,300,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing December 27, 1973, in the amount of $4,304,230,000 as follows:

91-day bills (to maturity date) to be issued December 27, 1973, in the amount of $2,500,000,000, or thereabouts, representing an additional amount of bills dated September 27, 1973, and to mature March 28, 1974 (CUSIP No. 912793 TE6) originally issued in the amount of $1,802,535,000 the additional and original bills to be freely interchangeable.

182-day bills, for $1,800,000,000, or thereabouts, to be dated December 27, 1973, and to mature June 27, 1974 (CUSIP No. 912793 TT3).

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Friday, December 21, 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 **December 27**, 1973, in cash or other immediately available funds or in a like face amount of Treasury bills maturing **December 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.

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FEDERAL ENERGY ADMINISTRATION

ADMINISTRATOR
Wm. E. Simon

DEPUTY ADMINISTRATOR
John C. Sawhill

Wm. A. Johnson
POLICY ANALYSIS

Gerald L. Parsky
EXECUTIVE ASSISTANT TO THE ADMINISTRATOR

Advisory Groups
- Economic - Energy Coordination
  (Business-Labor-Agriculture
  Consumer
  Environment)

- Public Affairs - Robert E. Nipp
- General Counsel
- Administration
- Congressional Relations

Asst. Admin. for Economic & Data Analysis & Strategic Planning
- Energy Data Analysis
- Economic Analysis
- Strategic Planning

Eric R. Zausner
Ass't. Admin.
Bart Holaday
Deputy Ass't. Admin.

Asst. Admin. for Policy, Planning & Regulation
- Policy Formulation & Analysis
- Reg. Promulgation
- Evaluation
- Pricing (CLC)

John A. Hill
Ass't. Admin.
Duke Ligon
Deputy Ass't. Admin.

Asst. Admin. for Operations & Compliance
- Energy Alloc.
- State & Local Gov. Rel.
- Field Opera.
- Industry & Public Assist.

Frank G. Zarb
Acting Ass't. Admin.

Asst. Admin. for Int'l Policy and Programs
- Int'l Policy
- Ntl Security
- Int'l Commerce
- Law of the Sea
- Int'l Programs
- Mandatory Oil Import Program
- Energy Export Regulation

Steve Wakefield
Ass't. Admin.
John Knubel
Deputy Ass't. Admin.

Asst. Admin. for Energy Conservation and Environment
- Transportation, Residential, Commercial & Industrial Conservation Policy
- Coordination of Federal, State and Local Conservation Programs
- Energy Conservation Studies
- Environmental Impact

Eric R. Zausner
Acting Ass't. Admin.

Asst. Admin. for Energy Resource Development
- Construction bottlenecks
- Material and labor shortages
- Regulatory delays
- Transportation constraints
- R&D coordination

To be announced

E-73-11

FEDERAL ENERGY OFFICE
Public Affairs
4001 New Executive Office Building
Washington, D. C. 20461
Tel: 395-3537

BIOGRAPHY
WILLIAM E. SIMON
ADMINISTRATOR

William E. Simon, 45, was appointed to be Administrator of the new Federal Energy Office by President Nixon on December 4, 1973. He will direct the operations of the new agency as it performs all major energy resource management functions of the Federal Government.

In addition, Mr. Simon will retain his position of Deputy Secretary of the U. S. Treasury, a post to which he was appointed in December of last year.

Until his nomination to head the Federal Energy Office (FEO), Mr. Simon served as a member of the President's Commission on Personnel Interchange, and member of the Board of Directors of the New Communities Corporation of the Department of Housing and Urban Development.

As Chairman of the President's Oil Policy Committee, Mr. Simon was instrumental in revising the mandatory oil import program in April 1973, and has been leading the Administration's thrust to restructure and improve United States financial institutions, including banks and savings and loan associations.

At the time of his nomination, Mr. Simon was a Senior Partner of Salomon Brothers, a major institutional investment banking firm

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in New York. He joined the firm in 1964, was one of the seven partners on the firm's Executive Committee, and was responsible for the Government and Municipal Securities Department

A native of Paterson, New Jersey, Mr. Simon was educated at Newark Academy and Lafayette College, where he received a B. A. degree in 1951. He began his career in finance in 1952 with Union Securities in New York, becoming an Assistant Vice President and Manager of the firm's Municipal Trading Department three years later. In 1957, he joined Weeden & Company as Vice President, a post he held until joining Salomon Brothers.

Mr. Simon has served on the Board of Governors and Executive Committee of the Investment Bankers Association of America, and on its Government Securities Committee. When that Association merged with the Association of Stock Exchange Firms in 1972 to form the new "Securities Industry Association," Mr. Simon was elected to the Board of Directors and the Executive Committee and was appointed Chairman of the Public Finance Council.

He is founder and past President of the Association of Primary Dealers in U. S. Government Securities, and has been active in many public and private organizations, including serving as National Chairman of Fund Raising for the United States Olympic Committee, and Chairman of the Debt Management Committee of New York City. He is a trustee of Lafayette College, the Mannes College of Music in New York City, and Newark Academy.

He is married to the former Carol Girard and they have seven children. Mr. Simon and his family live in McLean, Virginia.

-FEO-

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BIOGRAPHY
JOHN C. SAWHILL
DEPUTY ADMINISTRATOR

John C. Sawhill, 37, was nominated to be Deputy Administrator for the proposed new Federal Energy Office by President Nixon on December 4, 1973. He will assist FEO Administrator William E. Simon in developing and implementing Federal energy policies, including energy conservation, research and development, international planning, and energy allocation programs.

At the time of his nomination, Mr. Sawhill was Associate Director for Natural Resources, Energy and Science, at the Office of Management and Budget, a post he had held since April 15 of this year. His responsibilities included budget, management and implementation of Federal policies in natural resources, energy policy and science.

Previously Mr. Sawhill was Senior Vice President for the Business Services Group at the Commercial Credit Company, a diversified financial and leasing company. He served in a five-man executive office responsible for managing the company.

Born on June 12, 1936, in Baltimore, Maryland, Mr. Sawhill received his A. B. from the Woodrow Wilson School of Public International Affairs at Princeton and his doctorate in economics, finance and management from New York University's Graduate School of Business Administration. He began his career in 1958 with Merrill Lynch, Pierce, Fenner and Smith, working in the underwriting and research departments. In 1960 he joined New York University as an

(more)

Assistant Dean and Assistant Professor of Finance at the Graduate School of Business Administration. He concurrently served as Senior Staff Economist to the Committee on Banking and Currency, U. S. House of Representatives.

He joined the Commercial Credit Company in 1963 as Director of Credit Research and Planning. In 1965, he joined the management consulting firm of McKinsey and Company as a Senior Associate. He rejoined Commercial Credit in 1968 as Vice President for Planning, serving with them until his appointment at the Office of Management and Budget in April. Mr. Sawhill is a Vice President and Director of Baltimore Neighborhoods, Inc., and a Director of the Baltimore Area Council on Alcoholism. He also serves as a member of the Board of Trustees for the College of Art at the Maryland Institute.

He is married to the former Isabel Vandevanter and they have one child. Mr. Sawhill and his family live in Washington, D. C.

-FEO-

12/13/73

FEDERAL ENERGY OFFICE
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BIOGRAPHY
WILLIAM A. JOHNSON
DIRECTOR, POLICY ANALYSIS

Administrator of the new Federal Energy Office William E. Simon today named William A. Johnson, 37, Director of Policy Analysis of the agency. His responsibilities in this new post will be to keep the policies of the new agency effective and efficient and in harmony with national energy objectives.

Prior to this appointment Dr. Johnson served as a Special Assistant to Mr. Simon in his capacity as Deputy Secretary of the Treasury for Energy and Natural Resources. He advised Mr. Simon on energy matters and headed the Treasury Department's Office of Energy and Natural Resources. At Treasury he worked with all aspects of oil production, refining, and marketing as well as oil imports and relations with foreign producing and consuming countries concerning oil matters.

Dr. Johnson received his Ph.D. in Economics from Harvard University in 1964. Previously, he completed undergraduate work, *summa cum laude*, at Syracuse University.

For eight years he served as a senior economist at the Rand Corporation in California, New York, and Washington, D. C., and from 1972 until March 1973, he was a senior economist with the Council of Economic Advisers in Washington.

Dr. Johnson lives with his wife and two sons in Bethesda, Maryland.

12/13/73 -FEO-

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BIOGRAPHY
GERALD L. PARSKY
EXECUTIVE ASSISTANT TO THE ADMINISTRATOR

Gerald L. Parsky, 31, Executive Assistant to William E. Simon in his capacity as Deputy Secretary of the Treasury, will continue as Executive Assistant to Mr. Simon as he administers the new Federal Energy Office.

Mr. Parsky entered Treasury in 1971 as Special Assistant to Under Secretary Edwin S. Cohen. There he was responsible for the administration of the office; speeches and Congressional presentations; the coordination of a staff of lawyers and economists and special projects for the Secretary of the Treasury. He became Executive Assistant to Mr. Simon in March of this year.

His earlier positions were as an Associate in the New York law firm of Mudge, Rose, Guthrie and Alexander, and as English Master at Suffield Academy, Suffield, Conn., where he taught English.

A graduate of Princeton and the University of Virginia Law School, Mr. Parsky distinguished himself as a student of English and law. He was admitted to the New York Bar in March 1969.

Married and the father of two children, Mr. Parsky lives in Washington, D. C.

12/13/73 -FEO-

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BIOGRAPHY
ROBERT E. NIPP
DIRECTOR OF PUBLIC AFFAIRS

Administrator William E. Simon, of the new Federal Energy Office today named Robert E. Nipp, 44, to be Director of Public Affairs.

Since March of 1973, Mr. Nipp has served as press secretary to Mr. Simon in his capacity as Deputy Secretary of the Treasury, handling the Department's press activities in oil and energy, and financial reform of banks, savings and loans, and other leading institutions. In his new position, he will be responsible for press and public information services for the Federal Energy Office in Washington, D.C., and at FEO's ten regional offices.

Prior to his services in the Treasury Department, Mr. Nipp was press assistant to General George A. Lincoln at the Office of Emergency Preparedness, where he was responsible for information activities in the oil and energy fields. Previously, he served 14 years as an information specialist in the U. S. Department of Agriculture, assisting in the direction of a nationwide public affairs program for the Department's multi-billion dollar housing, community services, and farm loan programs. He also carried out consulting assignments in the United Arab Republic and the Ryuku Islands.

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528-798 O - 73 - 2

Raised on a farm near Yankton, South Dakota, Mr. Nipp served in the U. S. Marine Corps, and was graduated with high honors from Iowa State University in 1951, where he majored in journalism, education, and economics. He taught high school at Atlantic, Iowa, from 1952 to 1956 and then served as a loan officer there for USDA's Farmers Home Administration. From 1958 to 1963, he attended USDA's graduate school, taking advanced courses in journalism and technical writing.

In early 1972, he completed an in-depth study on the model cities program in rural America which was published by the United States Senate. He has also written numerous publications and articles on the subject of housing and community development.

He is married to the former Andrea Quayle and they live with their three children in Falls Church, Virginia.

-FEO-

12/13/73

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BIOGRAPHY
ERIC R. ZAUSNER
ASSISTANT ADMINISTRATOR FOR ECONOMIC AND DATA ANALYSIS AND STRATEGIC PLANNING
ACTING ASSISTANT ADMINISTRATOR FOR ENERGY CONSERVATION AND ENVIRONMENT

Administrator of the new Federal Energy Office William E. Simon today named Eric R. Zausner, 29, to be Assistant Administrator for Analysis and Strategic Planning for the agency. He also will serve as Acting Assistant Administrator for Energy Conservation and Environment.

His most immediate responsibilities will be to oversee the analysis of data on energy supplies and consumption; the analysis of effects on the economy and to direct formulation and evaluation of strategic plans and policy based on these analyses.

In his capacity as Acting Assistant Administrator for Energy Conservation and Environment, Mr. Zausner will direct transportation, residential, commercial and industrial energy conservation policy; the coordination of Federal, State and local energy conservation programs; energy conservation studies; and assessments of environmental impact.

Prior to this appointment Mr. Zausner served as Deputy Assistant Secretary of the Interior for Energy. His responsibilities included the development and direction of three new energy staff offices -- the Office of Energy Conservation, the Office of Energy Data and Analysis and the Office of Energy Research and Development. Other line agencies under his supervision were the Office of Oil and Gas,

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the Office of Coal Research and the energy-related activities of the Bureau of Mines and the Geological Survey. In addition to this, Mr. Zausner assisted the Assistant Secretary for Energy and Minerals in overall energy policy matters.

Previously he was a Senior Staff Member on the Council on Environmental Quality, Executive Office of the President. His responsibilities included the direction of all economic and quantitative analyses and policy development in solid waste and energy. Prior to his position with the Council, Mr. Zausner was Chief of the Management Sciences Section, Bureau of Solid Waste Management, now the Office of Solid Waste Management Programs of the Environmental Protection Agency.

Mr. Zausner received his Master of Business Administration degree in Finance from the Wharton School, University of Pennsylvania, and a Bachelor of Science degree in Electrical Engineering from Lehigh University.

-FEO-

12/13/73

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BIOGRAPHY
JOHN A. HILL
ASSISTANT ADMINISTRATOR FOR POLICY, PLANNING AND REGULATION

Administrator of the new Federal Energy Office William E. Simon today announced the selection of John A. Hill, 31, as Assistant Administrator for Policy, Planning and Regulation for the agency. Mr. Hill will have the administrative responsibility for policy formulation and analysis; the development and establishment of regulations involving the allocation of scarce fuels; program evaluation and work that concerns prices paid for energy; and overall energy policy.

Prior to his appointment, Mr. Hill served as Director of the National Energy Emergency Planning Group, which prepared option papers on energy conservation and allocation for the Cabinet-level Energy Action Group.

Positions previously held by Mr. Hill include appointments with the Office of Management and Budget where he served as Senior Budget Examiner, Health and Community Development Branches, Human Resources Division and later as Deputy Associate Director for Natural Resources, Energy and Science.

At the U. S. Environmental Protection Agency he was Senior Analyst, Office of Special Projects, Office of Planning and Management and later, Director, Operations Analysis Division, Office of Solid Waste Management Programs.

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Before entering Federal service, Mr. Hill was an Executive Associate with Educational Associates, Inc., a Washington-based consulting firm.

Mr. Hill is a graduate of Southern Methodist University, Callas, Texas, where he studied economics and received his B. A. He worked toward a doctorate in Social Ethics there, also.

Married and the father of two children, he lives in College Park, Maryland.

-FEO-

12/13/73

FEDERAL ENERGY OFFICE
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BIOGRAPHY
DUKE R. LIGON
DEPUTY ASSISTANT ADMINISTRATOR FOR
POLICY, PLANNING AND REGULATION

Administrator, William E. Simon, of the new Federal Energy Office today announced the selection of Duke R. Ligon, 32, as Deputy Assistant Administrator for Policy, Planning and Regulation for the agency. He will assist Assistant Administrator John A. Hill in overseeing policy formulation and analysis; the development and establishment of regulations concerning the allocation of scarce fuels; program evaluation and work that involves pricing in the energy field.

Since March 1973, Duke R. Ligon, 32, served as Director of the Office of Oil and Gas, Department of the Interior, and Executive Secretary of the Oil Policy Committee, a Cabinet-level, interagency group responsible for the Nation's oil import policies.

As head of OOG, Mr. Ligon directed development of basic data and analysis used by the Energy Policy Office of the White House and the Oil Policy Committee in making decisions affecting the Nation's energy future. He also was in charge of administration of the oil import program and, until November 1, 1973, directed administration of the voluntary petroleum allocation program.

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Current interest in energy problems brought numerous appearances before Congressional committees by Mr. Ligon; extensive contact with all segments of the energy industry; and continuing effort to listen to and talk with the public as energy users.

From May 1, 1972 until his appointment as the Director of OOG, Ligon was oil and gas advisor to Treasury Secretaries John B. Connally and George P. Shultz. Prior to this, he served as an administrative assistant to executives of the Continental Oil Company. During 1969 and 1970, he served with the Army on General C. B. Abrams' briefing staff in Viet Nam and was the Laos strategic intelligence officer for Brig. Gen. William B. Potts, the chief intelligence officer in Viet Nam. He had earlier experience in oil and gas exploration and production operations in Oklahoma.

Ligon earned a doctorate degree in jurisprudence from the University of Texas Law School (1969), has completed graduate work in business and finance at the University of Texas (1966), and holds a B.A. in chemistry from Westminster College in Fulton, Missouri (1963).

-FEO-

12/13/73

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BIOGRAPHY
FRANK G. ZARB
ACTING ASSISTANT ADMINISTRATOR FOR
OPERATIONS AND COMPLIANCE

Administrator William E. Simon, of the new Federal Energy Office, today named Frank G. Zarb, 38, as Acting Assistant Administrator for Operations and Compliance for the agency. Mr. Zarb's responsibilities will include energy allocation; relations with State and local governments; field operations of the new agency; and assistance to industry and the public.

Last July Mr. Roy L. Ash named Mr. Zarb Assistant Director for the Office of Management and Budget. Here he oversees OMB's Management and Operations activities, including coordination of a broad range of Federal programs and initiatives. Mr. Zarb will continue in this position.

Prior to that, Mr. Zarb was Executive Vice President and Chairman of the Executive Committee of Hayden Stone, Inc., a New York investment and securities firm.

Earlier service in the Nixon Administration was as Assistant Secretary of Labor for nearly two years.

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528-798 O - 73 - 3

In 1970 he edited THE STOCK MARKET HANDBOOK, published by Dow-Jones-Irwin, Inc. He has also co-authored "A Stock Broker's Statement of Financial Condition, How to read it -- and how to read between the lines." He organized and served as the first Chairman of the Joint-Bank-Securities Industry Committee for Securities Protection and has held membership with the Board of Arbitrators of the National Association of Securities Dealers, and the Board of Advisors of the New York Institute of Finance. He has been a member of the Chicago Board of Trade and the Chicago Mercantile Exchange and an allied member of the New York Stock Exchange as well as the American and Pacific Coast Stock Exchanges.
He currently serves on the Board of Trustees of the East Woods School, Oyster Bay, New York.

Mr. Zarb graduated from Hofstra University with a BBA in 1957 and a Master's Degree in 1961.

He is married, has two children, and makes his home in Lloyd Harbor, New York.

-FEO-

12/13/73

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Public Affairs
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Washington, D. C. 20461
Tel: 395-3537

BIOGRAPHY
BART HOLADAY
DEPUTY ASSISTANT ADMINISTRATOR FOR DATA ANALYSIS

Administrator William E. Simon of the new Federal Energy Office today named Bart Holaday to be Deputy Assistant Administrator for Data Analysis. Mr. Holaday will aid Assistant Administrator Eric R. Zausner in overseeing the analysis of data on energy supplies and consumption; the analysis of energy-related effects on the economy, and in directing the formulation and establishment of plans based on these analyses.

Prior to this appointment, Mr. Holaday was Director of the Office of Energy Data and Analysis of the Department of the Interior, an office established in May of this year. Before that he was Director of the Econometrics Division in the Office of the Assistant Secretary of Defense (systems analysis). He joined that office in 1968 as an economic analyst.

A graduate of the U. S. Air Force Academy, where he distinguished himself as a student of international affairs, engineering and economics, Mr. Holaday attended Oxford University on a Rhodes Scholarship where he received a First in the Honors School of Politics, Philosophy and Economics.

Mr. Holaday lives with his wife in Arlington, Virginia.

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BIOGRAPHY
STEPHEN A. WAKEFIELD
ASSISTANT ADMINISTRATOR FOR INTERNATIONAL POLICY AND PROGRAMS

Administrator of the new Federal Energy Office William E. Simon today named Stephen A. Wakefield, 33, to be Assistant Administrator for International Policy and Programs for the agency. In this capacity Mr. Wakefield will oversee activities of the new agency that concern international policy; national security; international commerce; law of the sea; international programs; the Mandatory Oil Import Program; and energy export regulation.

Prior to this appointment, Mr. Wakefield was Assistant Secretary for Energy and Minerals in the Interior Department, a post newly created just last March. There he was responsible for energy and minerals programs.

Earlier, Mr. Wakefield served as Deputy Assistant Secretary for Mineral Resources in charge of Energy Programs. Prior to that, he served for 2 years as Special Assistant to the General Counsel of the Federal Power Commission (FPC), where he was particularly concerned with natural gas regulation.

Between 1965 and 1970 he was an attorney with the law firm of Baker and Botts in Houston, Texas.

Mr. Wakefield majored in government at the University of Texas at Austin and received an L.L.B degree (with honors) in 1965 from the University of Texas School of Law.

He lives in Bethesda, Maryland, with his wife, two daughters, and a son.

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BIOGRAPHY
JOHN A. KNUBEL
DEPUTY ASSISTANT ADMINISTRATOR FOR INTERNATIONAL POLICY AND PROGRAMS

Administrator of the new Federal Energy Office William E. Simon today named John Knubel, 34, to be Deputy Assistant Administrator for International Policy and Programs. Mr. Knubel will aid Assistant Administrator Stephen A. Wakefield in directing agency work in the areas of international policy; national security; international commerce; law of the sea; international programs; the mandatory oil import program; and energy export regulation.

Last June, Mr. Knubel was appointed Deputy Director of the Program Analysis Office of the National Security Council. Since then he has been working on the NSC studies of the diplomatic, international, and security implications of energy.

Prior to that he was on the staff of the NSC and provided support for the Defense Program Review Council in its deliberations, studies, and analyses of the overall defense program, nondefense spending, long-term strategic planning for Asia, Korea's Military Assistance Program, and other issues.

Mr. Knubel served for three years at sea with the U. S. Navy as a department head aboard various submarines. Following this he was assigned to the Office of the Assistant Secretary of Defense (Systems Analysis); as a systems analyst, he worked on a range of studies involved with Strategic Arms Limitation Talks and strategic forces in general.

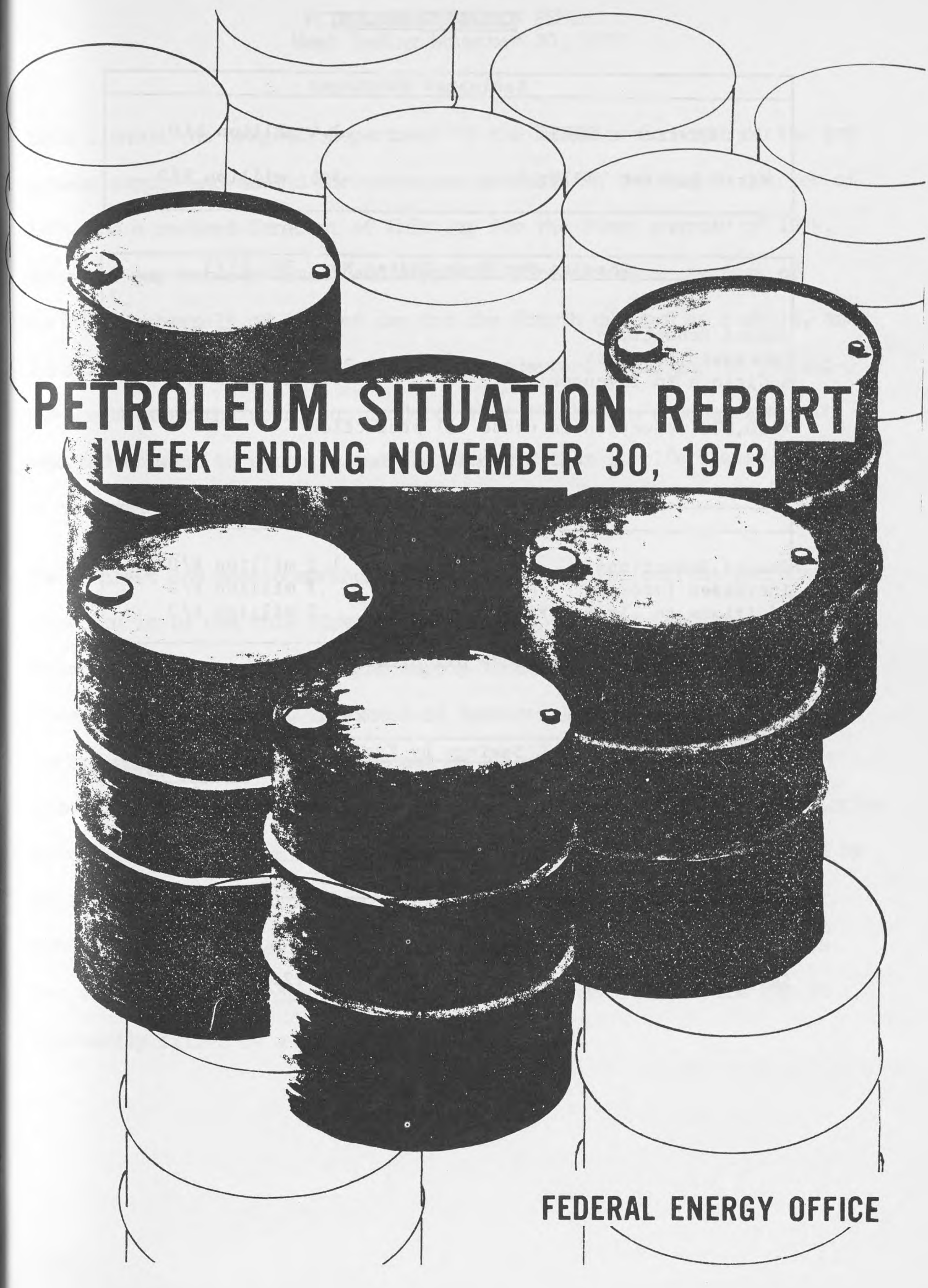
(more)

A 1962 graduate of the U. S. Naval Academy, Mr. Knubel had one year of sea duty before entering University College, Oxford University, as a Rhodes Scholar in October 1963.

At Oxford he specialized in economic theory and statistics and received a first-class honor degree in politics, philosophy, and economics in the summer of 1966. He was awarded a University College Prize the same year.

-FEO-

12/13/73



PETROLEUM SITUATION REPORT

WEEK ENDING NOVEMBER 30, 1973

FEDERAL ENERGY OFFICE

ENERGY SCORECARD

Estimated Shortages	
Last Quarter 1973:	1.4 million B/D
First Quarter 1974:	3.3 million B/D

Results for Week Ending Nov. 30, 1973	
Demand Reductions:	1.8 million B/D
Increased Imports:	.3 million B/D
Additions to Inventories*	.6 million B/D

*100,000 reduction in crude oil production

Success for 3 Weeks Ending Nov. 30	
Demand Reductions:	1.1 million B/D
Increased Imports:	.7 million B/D
Additions to Inventories*	.3 million B/D

*100,000 reduction in crude oil production

% Savings by Fuel Type	Latest Week	3 Week Total
Gasoline	15.1%	6.1
Residual Oil	8.2	6.5
Distillate Oil	.8	1.5
Jet Fuel	28.2	29.3

SAVINGS FOR 3 WEEKS IS 1.1 MILLION B/D OR 22.7 MILLION BARRELS

PETROLEUM SITUATION REPORT
Week Ending November 30, 1973

Table 1 shows the original Department of the Interior forecast of the gap between supply and demand for petroleum products in the fourth quarter of 1973, and a revised forecast of this gap for the first quarter of 1974. The total gap between demand and supply is forecast as an average of 1.4 million barrels of oil per day for the fourth quarter as a whole, and 3.3 million barrels per day for the first quarter. This gap is the difference between the petroleum products that the Nation's consumers were expected to want to purchase and the products that suppliers were expected to have available for sale.

The simplest and most comprehensive way to assess the current petroleum situation is to use this forecast as a reference point, and to see how the projected gap between demand and supply is closed. Part of it may be closed by actual imports in excess of forecast imports, which occurs if the oil supply interruptions are not as effective as they were forecast to be. Another part may be closed through increases in domestic production above the forecast level. Still another part of the gap may be closed by the Nation's consumers purchasing smaller quantities than was forecast. And, finally, to the extent that consumers buy more petroleum products than the Nation is producing or importing, the remainder of the gap is necessarily filled by a reduction of inventories.

528-798 O - 73 - 4

The first two charts indicate how the gap between projected demand and projected supply was closed in the week ending November 30 and in the three weeks since November 10. The first bar on each chart shows the problem: the gap of 1.4 million barrels of oil per day, as originally forecast, augmented by a failure of domestic production of crude oil to reach even the forecast level. The second bar in each of these charts shows the effects of actions and events in closing the gap. For the current week the reduction of demand below the forecast level is the major factor in closing the gap, with a small additional contribution from imports in excess of the forecast level. For the three weeks since November 10, demand reductions and imports above the forecast both made large contributions. For both the current week and the three weeks since November 10, the sum of demand reductions and imports above the forecast exceeded the total size of the gap, and the result is an accumulation of inventories at a rate exceeding the forecast inventory change. This difference is shown in the third bar of each chart.

As a result of the week's favorable developments, stocks of all major petroleum products except distillates are up, and for distillates the decline was much less than is typical for this season. Stocks are at or near normal seasonal levels, and the Nation entered the month of December in a strong position.

Imports

The imports situation, illustrated on the third chart, shows actual imports of petroleum products week by week through November 30, and two projections through the end of the fourth quarter. The projection marked "original forecast" shows the path imports would have had to follow to reach an average level for the quarter of 5.6 million barrels per day, as originally forecast by the Department of the Interior. This original forecast was based on imports declining throughout November, reaching the base level of fully effective interruptions (4.5 million barrels per day) in the week of November 30. The current outlook, based on actual data through November 30, as shown on the chart, indicates a delay of about two weeks in the impact of the interruptions. This delay means additional imports of approximately 27.6 million barrels of oil above the total originally forecast for the fourth quarter as a whole, and this one-time gain places the Nation in that much stronger a position for the coming winter than was originally expected.

The demand situation

Demand for the four major petroleum products was 11.3% below forecast for the week ending November 30, and 7.2% below forecast for the three-week period since November 10, as shown on the fourth chart. The demand for gasoline was 15.1% below forecast for the week and an average of 6.1% below forecast for the three-week period. This indicates substantial response to the President's energy message, and it does not encompass the first Sunday closing of gasoline stations.

The largest difference between actual and forecast demand is in jet fuel, where demand has been running almost 30 percent below forecast for the three-week period. However, the Defense Department request under the Defense Production Act, estimated to account for about 15 percent of the total demand for jet fuel, was not yet being filled. This indicates a 15 percent reduction below forecast for jet fuel use in the private sector.

In distillate fuel oils, one report from eastern Massachusetts indicates deliveries there approximately 15% below last year's deliveries for the period September 1 to November 30. Roughly 7 points is due to milder weather, and this indicates an 8 percent reduction resulting from consumer conservation efforts. However, the situation for the country as a whole is not so favorable, with distillate demand running close to the forecast level. Given the unusually warm weather and the report from Massachusetts, the Nation's apparent demand for distillates is higher than would be expected.

The weather

The weather continues warmer than normal for the entire country. For the week ending December 2, the number of oil heating degree days was 22 percent below normal; and for the period since July 1, the oil heating degree-day deficiency was 11 percent below normal. The Middle Atlantic and Midwest areas experienced unusually warm weather last week, ranging from 15 to 30 percent fewer degree days than normal (fifth chart). As shown on the sixth chart, temperatures for December are expected to continue above normal for the Northeast and much of the Midwest, where most of the Nation's heating oil is used.

Outlook for the first quarter of 1974

The outlook for the first quarter of 1974 is shown in Table 2. This table shows the forecast gap between demand and supply for the major petroleum products, and also the steps taken or proposed to close these gaps. For each product, the basic forecast of the gross shortage is shown first, expressed both in thousands of barrels per day and as a percentage of the quantities consumers would want to purchase in the absence of supply restrictions. The next two columns show the actions taken or announced by the President, and the fuel savings estimated to result from these actions. Further management of the shortage has been proposed through a change in the mix of petroleum products produced by the Nation's refineries, and this strategy is shown in the sixth column. These shifts will not increase the total availability of petroleum products, but they will shift the shortages to products where they are more easily managed. The seventh column shows the estimated net shortage remaining after all these actions have been taken. The eighth column shows further actions that may be taken to deal with the remaining shortages, or with other problems as they arise.

Table 1

U.S. SUPPLY AND DEMAND FOR PETROLEUM PRODUCTS
FOURTH QUARTER 1973 AND FIRST QUARTER 1974
(Thousands of barrels per day)

	Fourth Quarter 1973			First Quarter 1974[a]		
	Base Level	Impact of Restrictions	Current Forecast	Base Level	Impact of Restrictions	Current Forecast
DEMAND	18,617	212[b]	18,829	19,671	295[b]	19,966
SUPPLY						
From domestic sources	11,532[c]	---	11,523	11,216[c]	---	11,216
From imports:						
raw material	(3,667)	(578)	(3,089)	(3,840)	(1,370)	(2,470)
refined products	(3,179)	(622)	(2,557)	(3,891)	(1,606)	(2,285)
Subtotal, from imports	6,846	1,200	5,646	7,731	2,976	4,755
Change in product inventories	208	---	208	724	---	724
TOTAL SUPPLY	18,617	1,200	17,417	19,671	2,976	16,695
DEMAND/SUPPLY DEFICIT	---		1,412	---		3,271
As percent of total demand			7.5%			16.4%

[a] Revised.
[b] Military requirements previously met from foreign sources but now expected to impact domestic demand.
[c] Includes 123 MB/D reduction of inventories of raw materials in fourth quarter, and is reduced by 14 MB/D increase of inventories in first quarter.

Table 2

SHORTFALLS AND STRATEGIES, FIRST QUARTER 1974
(Quantities in thousands of barrels per day)

Product	Gross Shortage: Thous. Bbls. per Day	Gross Shortage: Percent of Unconstrained Demand	Actions Taken or Announced: Action	Actions Taken or Announced: Fuel Saving	Shift in Refinery Output[1]	Net Shortage	Potential Actions
Jet Fuel	400	32%	25% reduction in airline schedules	220	180	-5 (Surplus)	Conversion from kerosine-type to naphtha-type jet fuel
			General aviation restriction	5			
Gasoline	700	11	15% reduction through allocation program published December 12	900	-780	572	Price increase, tax increase, coupon rationing
			General aviation restriction	8			
			50-55 m.p.h. speed limit[2]	(200)			
			Sunday gas station closings[2]	(50)			
Distillate Fuel Oils	900	17	Reduction of 6° in residential and 10° in commercial heating	490	400	-30 (Surplus)	
			Other reductions published December 12	40			
Residual Fuel Oil	860	24	Oil to coal switch in 26 power plants	200	200	--	Excessive use taxes on electricity and natural gas
			Allocation program and reduced heating, published December 12	260			
			Voluntary conservation	200			
Other Petroleum Products	400	10	Allocation program published December 12	400		--	
TOTAL	3,260[3/]	16.3		2,723	--	537	

[1]Cost of Living Council regulations published December 4 encourage refinery shift; projected shifts remain to be validated.
[2]Actions taken to restrict demand, but impact is subsumed in supply restriction through allocation program.
[3]Differs slightly from total of 3,271 shown on Table 1 owing to independent rounding of various components.

THE PETROLEUM SITUATION
WEEK ENDING NOVEMBER 30, 1973
(Millions of Barrels per Day)

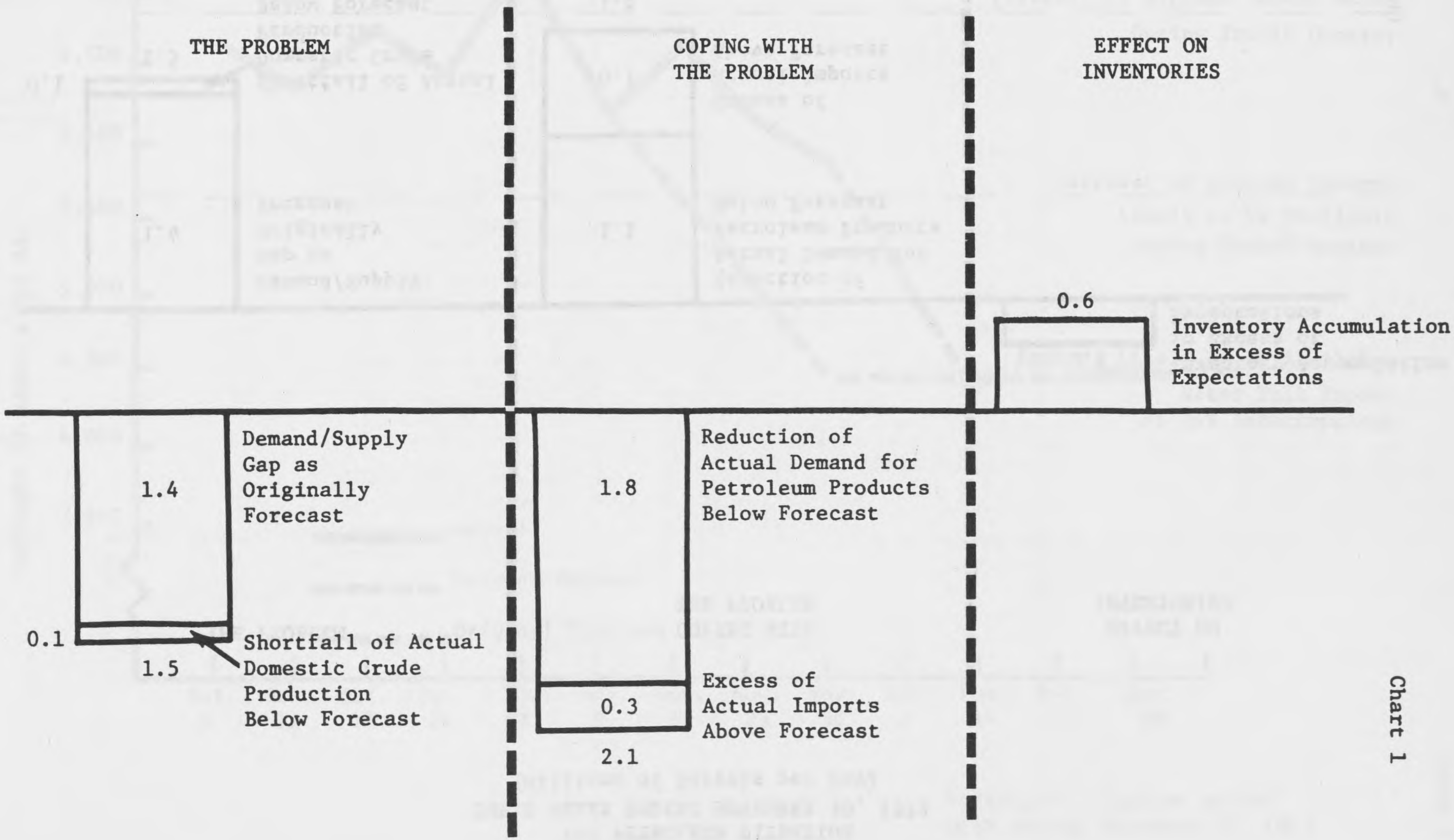


Chart 1

THE PETROLEUM SITUATION
THREE WEEKS ENDING NOVEMBER 30, 1973
(Millions of Barrels per Day)

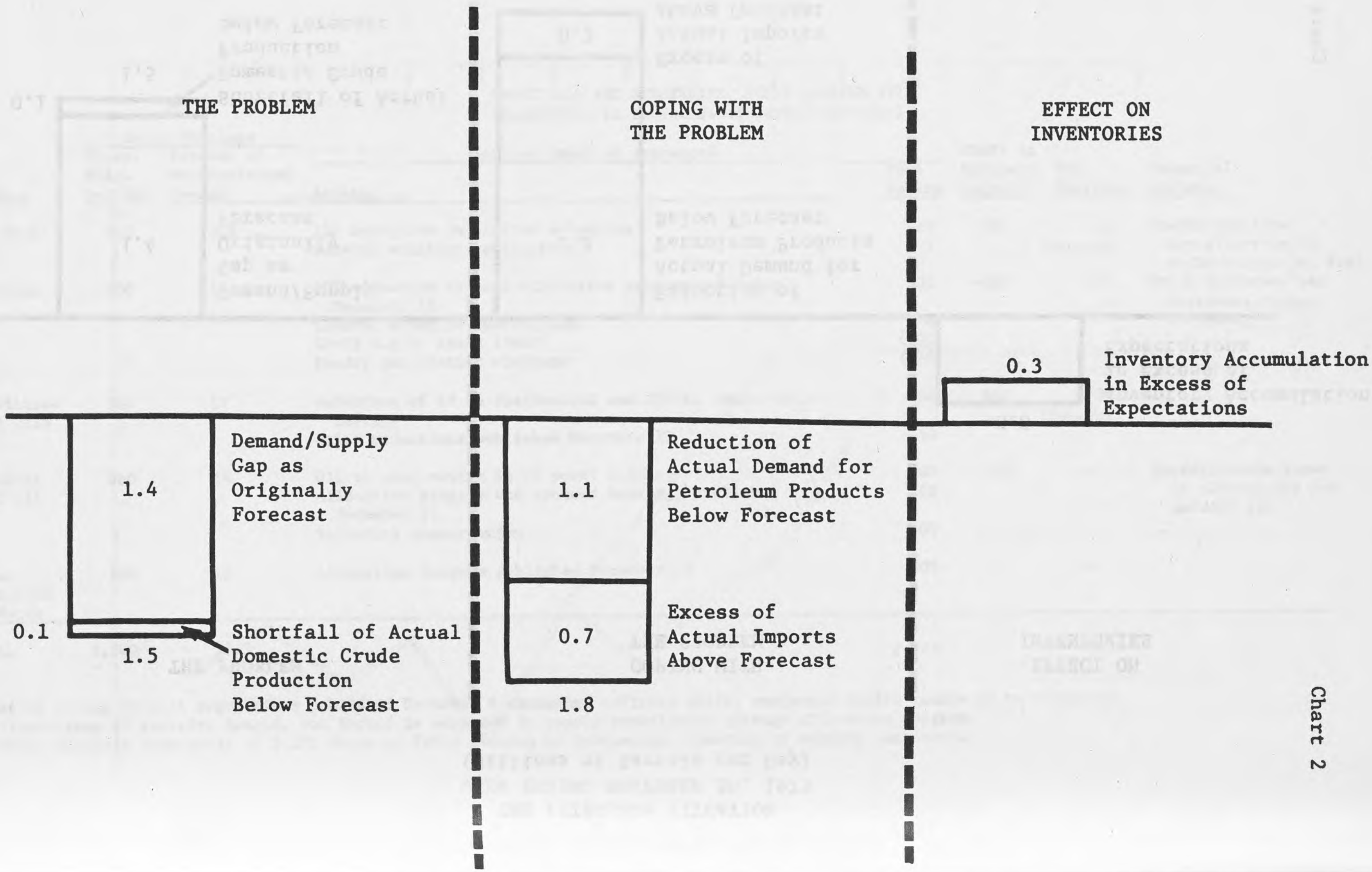
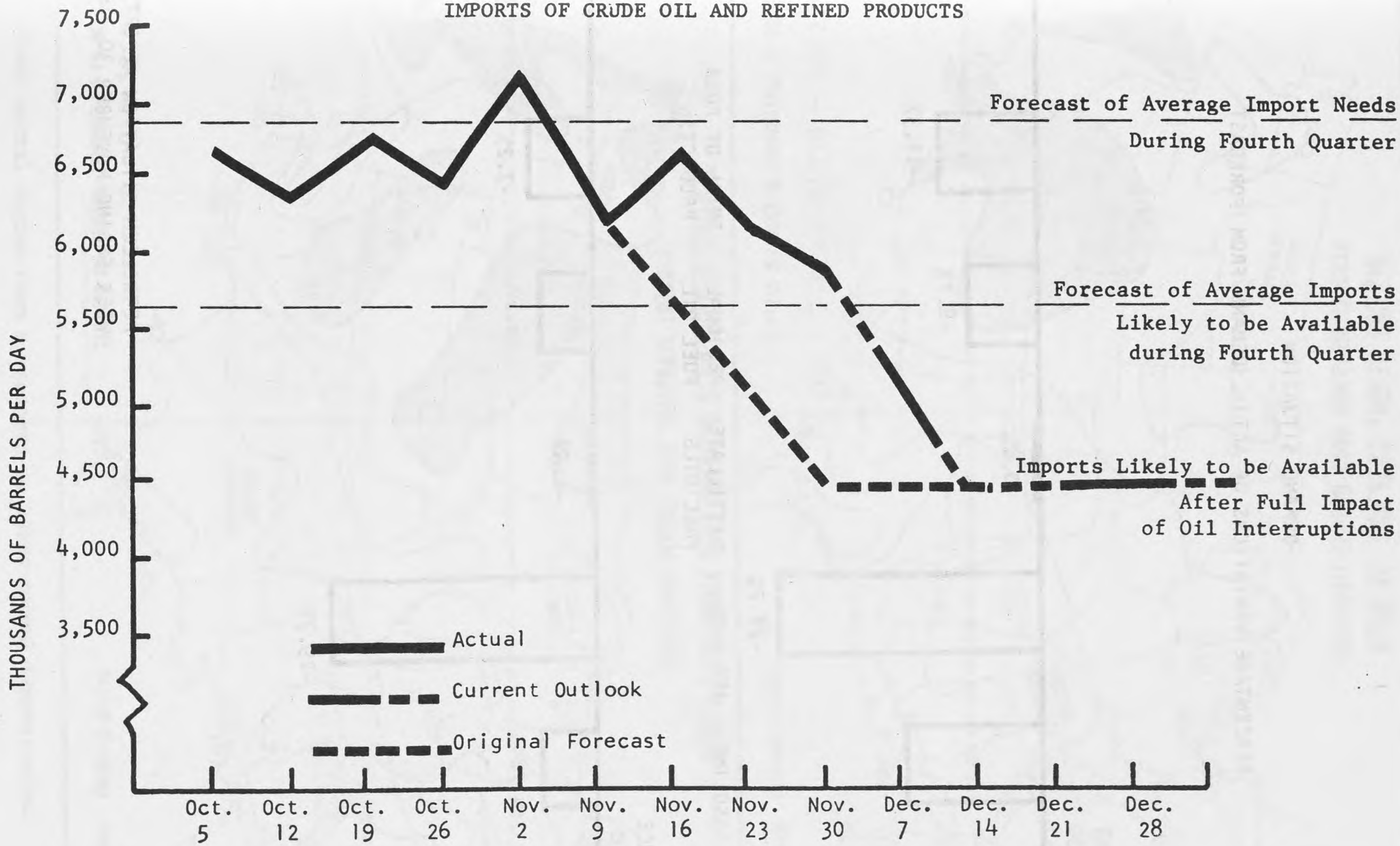


Chart 2

IMPORTS SITUATION, FOURTH QUARTER 1973

IMPORTS OF CRUDE OIL AND REFINED PRODUCTS

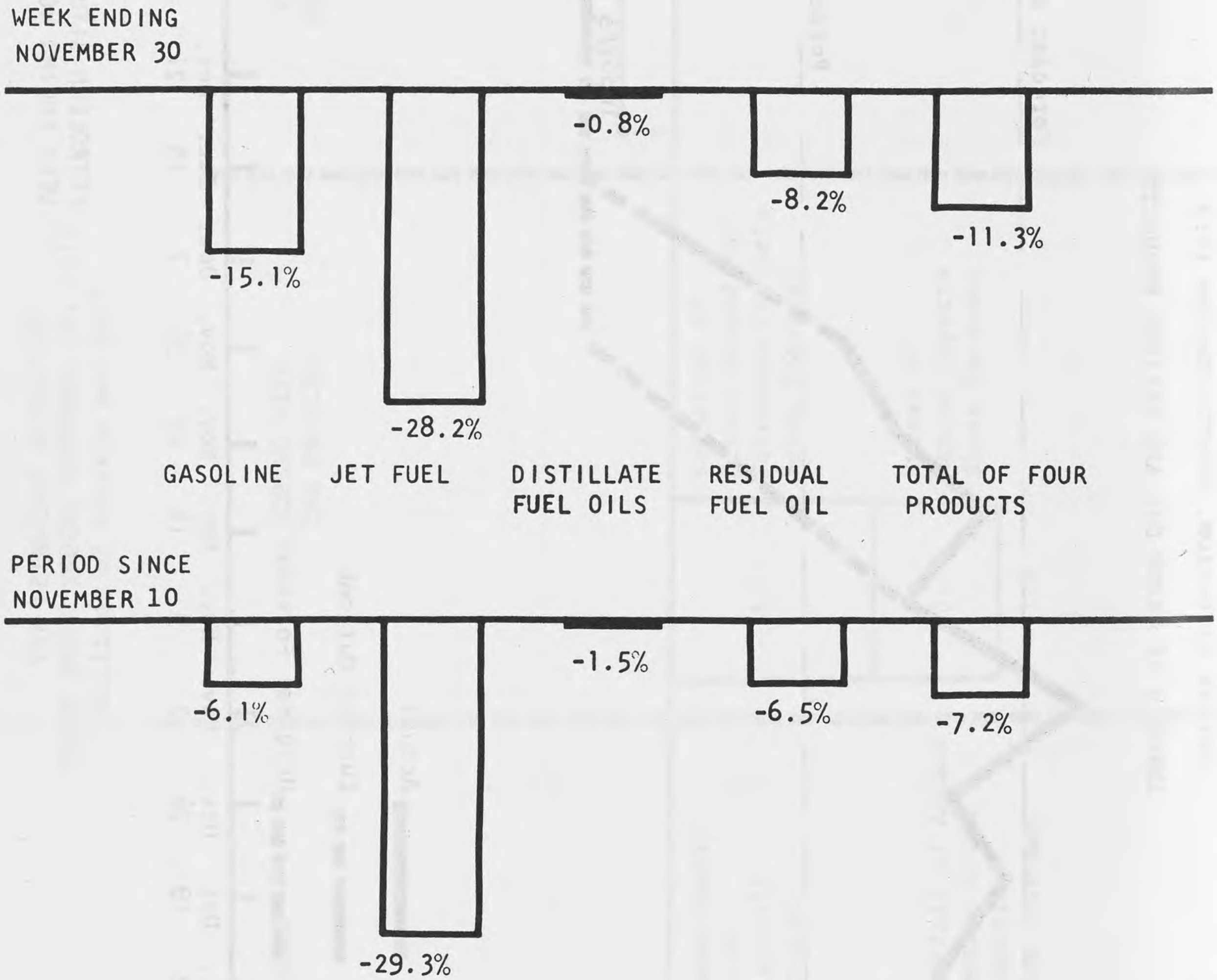


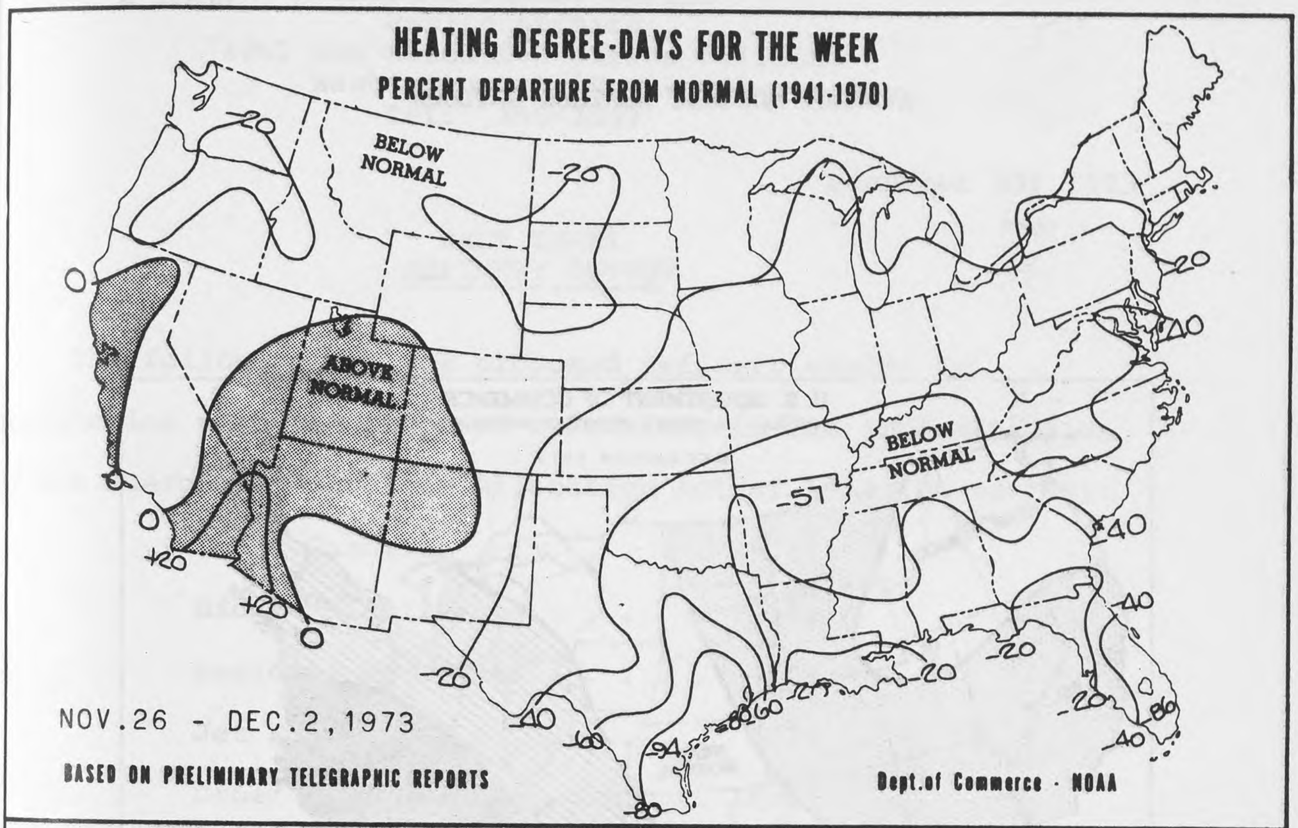
PETROLEUM SITUATION REPORT
WEEK ENDING NOVEMBER 30, 1973

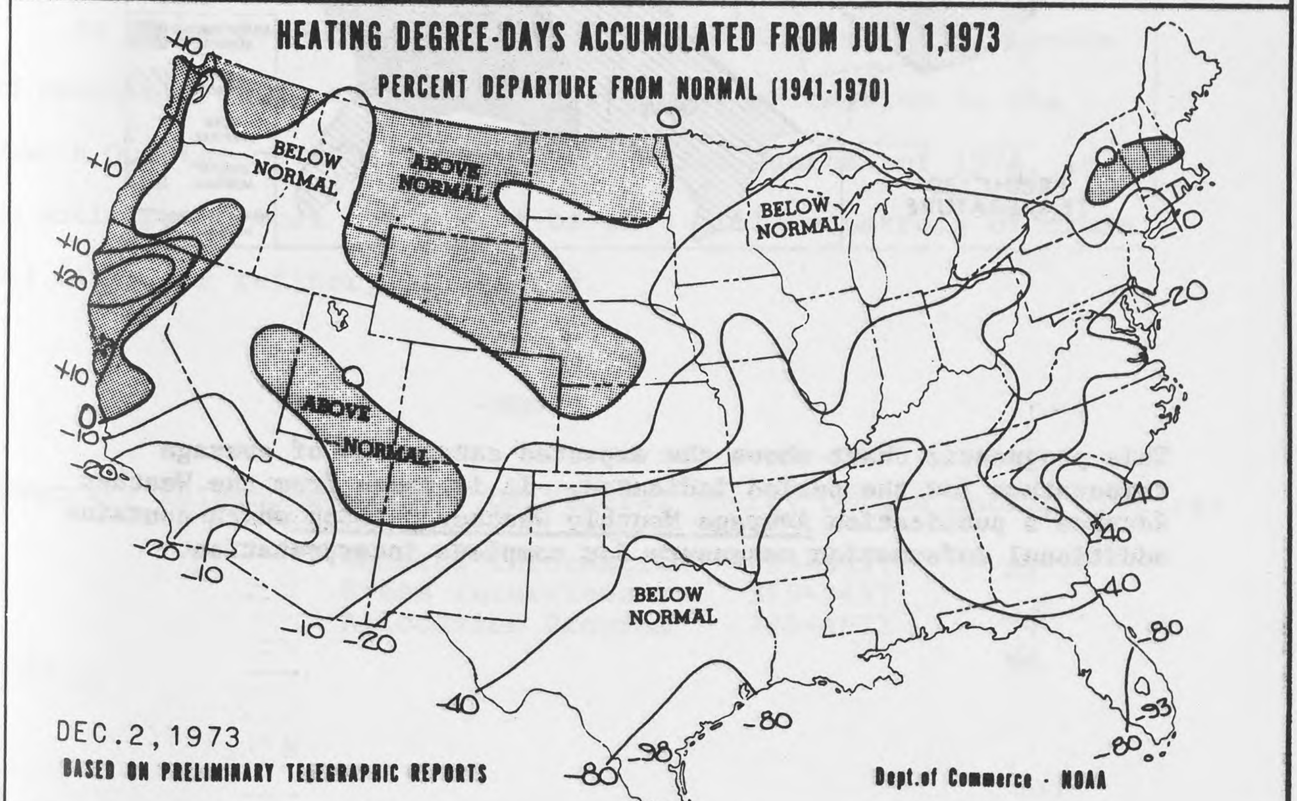
Chart 3

DEMAND SITUATION

PERCENTAGE VARIATIONS OF ACTUAL DEMAND FROM FORECAST

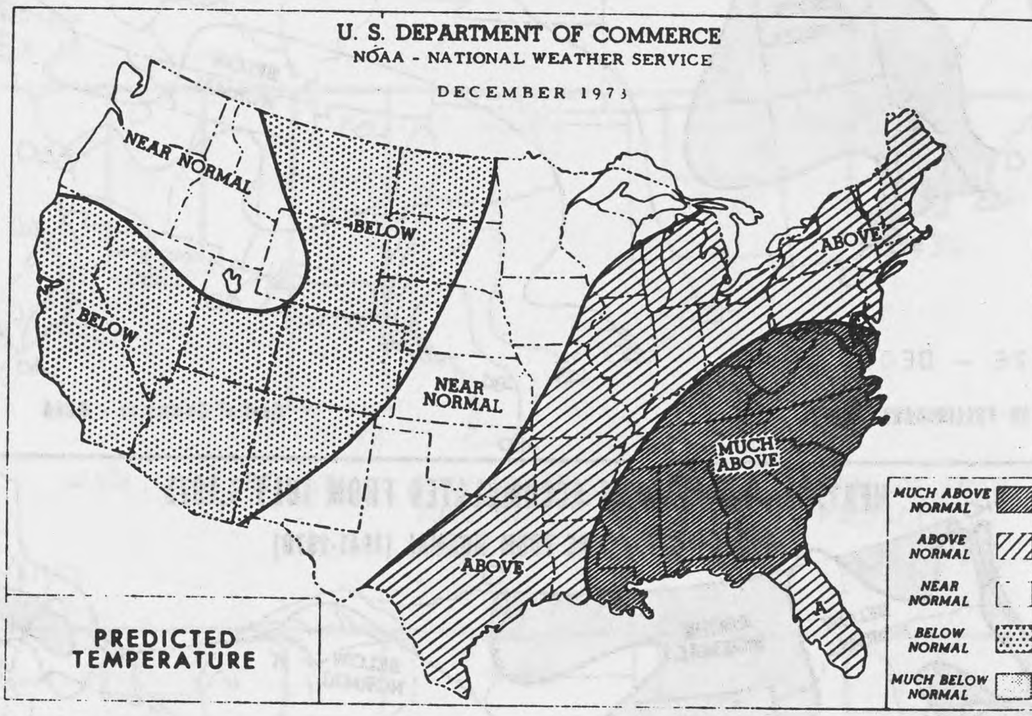






Note: above normal degree days correspond to below normal temperatures.

AVERAGE MONTHLY WEATHER OUTLOOK



This prognostic chart shows the expected categories of average temperature for the period indicated. It is taken from the Weather Service's publication Average Monthly Weather Outlook which contains additional information necessary for complete interpretation.

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December 13, 1973

FACT SHEET
REFINERY OUTPUT

The following are the proposed refinery yields in conjunction with the proposed rulemaking in the implementation of the Emergency Petroleum Allocation Act of 1973 (PL 93-159):

Motor Gasoline	39.2%
Middle Distillates	27.9%
Residual Fuel Oil.	9.6%
Jet Fuel	7.7%
Other Products	15.6%

It is anticipated that there will be 12.7 million barrels of crude oil daily available for refinery processing in the Fourth Quarter of 1973. During the First Quarter of 1974, it is anticipated that there will be 11.8 million barrels of crude oil daily for refinery processing.

-FEO-

Temporary telephone numbers of Federal Energy Office public affairs:

General Information	395-3537
Press Interviews	395-3497
Allocation Program	395-4672

E-73-12

December 12, 1973

FACT SHEET
FEDERAL ENERGY OFFICE
PROPOSED MANDATORY ALLOCATION REGULATIONS

The Emergency Petroleum Allocation Act of 1973 (PL 93-159) signed November 27, 1973 grants to the President specific temporary authority to alleviate supply shortages of crude oil, residual fuel oil, and all refined petroleum products produced in, imported into, or refined in the United States. The Mandatory Petroleum Allocation Regulations is an action to carry out the purposes of the Emergency Petroleum Allocation Act.

The Mandatory Petroleum Allocation Regulations become effective on December 27, 1973 after consideration of comments from the public. The proposed allocation scheme provides, so far as practicable and necessary, for: protection of public health, safety and welfare; maintenance of public services, agricultural operations, and national defense; preservation of an economically sound and competitive petroleum industry; economic efficiency; and minimization of economic impact. There is currently in effect a voluntary program for gasoline, residual fuel oil, and gasoline, and mandatory programs for propane and middle distillates. These programs shall remain in effect until December 27, 1973.

The proposed allocation scheme provides for the allocation of crude oil to U.S. refineries and the equitable distribution of crude oil, residual fuel oil, and refined petroleum products at equitable prices. No provision is made for the allocation of paraffin waxes, petroleum coke, asphalt, road oil, and refinery gas.

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E-73-13

Periodically, petroleum forecasts will be published with "target" mixes of products to be refined from the available crude oil based on the expected energy consumption patterns for the period. Allocation paramerters and prices for the period will be based on these "target" figures.

Crude Oil Mandatory Allocation And Mandatory Refinery Yield Control Program

Coverage - This allocation and control system applies to all crude oil produced in or imported into the United States, and to all petroleum refiners and all refineries located in the United States.

Allocation

- Each refiner will be allocated domestic and imported crude oil on the basis of a national supply/capacity ratio.

- Supply/capacity ratios will be calculated and published quarterly by the FEO.

Distribution

- Those refiners with sufficient supplies to exceed the FEO supply/capacity ratio by more than 0.02 must sell their excess supplies to those refiners falling more than 0.02 below the FEO supply/capacity ratio.

- To deal equitably with import costs, price calculations for crude offered for sale under this program will be made on a slightly different basis for Petroleum Allocation Districts I-IV and Petroleum Allocation District V (West Coast).

Procedures and Requirements

- Each refiner will report quarterly his historical product runs for the previous quarter and his estimated product runs for the coming quarter, as well as any changes in refinery capacity.

- The FEO will publish quarterly notifications showing required sale volumes or purchase opportunities for each refiner.

- In order to maximize supplies of middle distillate, residual fuel oil, and other products, each refiner is limited to producing 95% of the gasoline he produced during the corresponding period of 1972.

- Exceptions to this limitation will be granted by the FEO only after careful evaluation.

Propane Mandatory Allocation Regulations Summary

Coverage - All propane, butane and propane-butane mixes are included in this category. Exclusions are limited to 1) raw mixed streams of natural gas liquids, 2) liquefied refinery gases with their homologues and 3) propane and butane streams produced in a refinery and intended for gasoline blending.

Allocation - Priority Customers

Priority customers, allocation rules, and base periods are as follows:

- Energy production - 100% of current requirements
- Agricultural production - 100% of current requirements
- Transportation services - 100% of current requirements
- Medical and nursing buildings - 100% of current requirements
- Marketing of Bottled Gas - 100% of current requirements
- Residential - 95% of current requirements adjusted for degree days
- Industrial vehicles or equipment - 90% of current requirements
- Peak shaving - 100% of September 1, 1972 through April 30, 1973
- Industrial - 100% of October 2, 1972 to April 30, 1973
- Emergency services, sanitation and telecommunications - 100% of calendar year 1973

- Industrial - 90% of October 2, 1972 to April 30, 1973

- Schools - 90% of calendar year 1973

- Petrochemical use - 90% of calendar year 1973

- Commercial use - up to 35,000 gallons per year per location.

- Non-priority customers will be allocated a pro rata share of the propane remaining after the priority needs are met.

Distribution

- All supplies must first provide propane for priority requirements of priority customers to whom they sold subsequent to August 31, 1973. They must also sell to assigned priority customers before making sales to non-priority customers.

- Suppliers and other resellers must provide to those resellers to whom they sold or transferred propane in the period September 1, 1972 through November 30, 1973 the propane that those resellers need to meet the requirements of their priority customers.

Procedures and Requirements

- Resellers must certify the estimated needs of priority customers to suppliers monthly.

Motor Gasoline Mandatory Allocation Summary

Coverage - This allocation system applies to all motor gasoline produced in or imported into the United States, with the exception of aviation gasoline, which is covered in the Aviation Fuels Mandatory Allocation Program.

Allocation

- The base period is the equivalent month of 1972.
- Priority Uses:
  - Emergency services - 100% of current requirements
  - Agricultural - 100% of current requirements
  - Public transportation - 100% of current requirements
  - Energy production - 100% of current requirements
  - Other business use - 100% of base period use
- Other Uses:
  - All other uses - the remainder, on a pro rata basis.
- Priority uses will receive their full allocations.

Other uses will receive a pro rata share of the remainder until this reaches 90% of base period use. At this point the allocation for other uses remains at 90% of base period use until other business use reaches 100% of current requirements. When that point is reached, the allocation for other uses again rises until it becomes 100% of current requirements.

Distribution

- Distribution will be made by suppliers consistent with normal regional patterns through customary distribution networks. Each supplier is required to provide supplies to all those retail sales outlets and bulk users he supplies at any time during 1973.

Procedures and Requirements

- Wholesale purchasers and retail sales outlets will report their priority and non-priority uses up their distribution chain monthly, beginning January 1, 1974.

- A reserve of three precent of the motor gasoline produced and imported into the United States will be set aside on a monthly basis. The reserve will be available to the States and the Federal Energy Office via wholesale purchasers to resolve emergency situations. The reserve may be transferred if necessary from region to region to meet these situations.

MIDDLE DISTILLATE MANDATORY ALLOCATION SUMMARY

Coverage - This allocation system applies to middle distillate fuels (e.g., home heating oil, diesel fuel) produced in or imported into the U.S.

Allocation

The base period is the equivalent month of 1972.

- Category I users:
  - Energy Production - 100% of current requirements.
  - Passenger Transportation Services - 100% of current requirements.
  - Emergency services - 100% of base period volume.
  - Space heating - 6° reduction for residential, 10° reduction for commercial and other users.
- Category II users:
  - Agricultural production - 110% of base period volume.
  - Industrial and manufacturing - 110% of base period volume.
  - Cargo, freight and mail hauling - 110% of base period volume.
  - Other users - 100% of base period volume.
- Category I users will receive their full allocation; Category II users will receive their full allocation, or in the event of greater than forseen shortfalls a pro rata share after Category I needs have been met.

Distribution -

Distribution will be made by suppliers consistent with normal regional patterns through customary distribution networks. Each supplier is required to provide supplies to those purchasers he was supplying as of 1 November, 1973.

Procedures and Requirements -

- Suppliers will report their Category I and II uses up their distribution chain beginning 15 January, and ending no later than 1 April. Until each supplier certifies his needs under this program to his next higher supplier, he will continue to receive supplies under the previous Mandatory Allocation Program.

- Refiner-suppliers and importer-suppliers will set aside three percent of supplies each month. The Federal Energy Office and the States will use this set-aside to resolve emergency situations. The set-aside may be transferred from region to region to meet these situations.

AVIATION FUEL MANDATORY ALLOCATION REGULATIONS SUMMARY

Coverage - This allocation system applies to aviation fuels produced in or imported into the United States including aviation gasoline, naphtha and kerosene jet fuels. Bonded aviation fuel is specifically excluded.

Allocation -

- Military subject to review of FEO	100% of current needs
- Civil air carriers	85% of 1972 base period utilization
- Public aviation (planes used by Federal State or local government organizations)	85% of 1972 base period utilization
- General aviation	
1. Commercial/Industrial/Air Taxis	90% of 1972 base period utilization
2. Business/Executive Flying	80% of 1972 base period utilization
3. Personal Pleasure/Instructional Flying	70% of 1972 base period utilization

Distribution

- Rely on existing distribution channels.
- Minimize Government intervention.
- Direct allocation to Civil Air Carriers and Public Aviation.
- Allocation to suppliers of General Aviation.

RESIDUAL FUEL OIL MANDATORY ALLOCATION SUMMARY

Coverage - This allocation system provides for allocation of residual fuel oil including #4, #5 and #6 fuel oils, Bunker C, Navy Special Fuel Oil and crude oil when burned directly as a fuel.

Allocation -

- Energy Production Food Production Essential Community Services Marine Shipping (excluding recreational cruise ships) Heating for health services	100% of current needs
- Industrial users and all other users	100% of base period 1973 utilization
- Residential heating	85% of 1973 base period
- Industrial heating	75% of 1973 base period

- Electric utility industry allocation on the basis of a computation to be made by the Federal Energy Office in conjunction with the Federal Power Commission so that each utility within each PAD or PAD grouping will receive and equal electricity cutback to the extent possible.

Distribution -

- Rely on existing distribution channels to maximum extent possible.
- Direct allocation to electric utilities as administered by the FEA and the FPC.
- Establishment of a Federal Residual Oil Pool to be accumulated from suppliers' excess if any.

OTHER PRODUCTS MANDATORY ALLOCATION SUMMARY

Coverage - This allocation system provides for other products not provided elsewhere in the regulation such as lubricants, petrochemical feedstocks, and other products not mentioned by name.

Allocation -

- Lubricants - 100% of current requirements subject to review of FEO.
- Petrochemical feedstocks - 100% of current requirements subject to review of FEO.
- Other remaining petroleum products - 100% of current requirements subject to review of FEO.
- In the event of shortages below current requirements, distributors shall provide an equal allocation fraction to their customers.

Distribution -

- Rely on existing distribution system channels.
- Minimize government intervention.

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DECEMBER 13, 1973

FACT SHEET ON NATIONAL CONSERVATION ACTIONS ANNOUNCED TODAY

° Require reduced lighting in all commercial and industrial buildings including retail establishments, factories, and offices to 50-foot candles at work stations, 30-foot candles for general work and sales areas, and 10- to 15-foot candles in hallways and corridors.

--Recent evaluations indicate that the 50/30/10 levels constitute minimum but effective and safe lighting.

--Most buildings are lighted to 70-90 candle power. Many new buildings are lighted at levels between 150-200 foot candles. The new standards will require delamping of at least another light in most offices and retail stores.

--Building managers and owners are being asked to immediately reduce lighting voluntarily. The new standard will be mandatory when emergency energy legislation becomes law.

--An estimated 800,000 barrels per day of oil (equivalent) can be saved through this action. Of this amount, approximately 300,000 barrels per day will be residual oil used to generate electricity. This is nearly 35% of the total projected shortage of residual fuel.

° Publish for public comment a proposal to eliminate major highway and freway lighting except for interchanges, ramps and highways, where lighting would be lowered by half.

--This option will be placed in the Federal Register for public comment before any final decision is made regarding enactment.

E-73-15

(more)

--If the reduced lighting option becomes mandatory, the action could save as much as 15,000 barrels of oil (equivalent).

- Request industry to establish energy audit committees to find ways to reduce consumption. This could save an estimated 15% of all energy required by industry.
- Ask commercial building managers and owners to eliminate lighting on a voluntary basis during non-working hours other than that essential for safety and security and to keep building temperatures above freezing.
- Ask citizens to restrict on a voluntary basis their use of electrical space heaters. If half of the homes in New England turned on a single 1500-watt heater, the power load would increase by 8,000 megawatts, more than 10% of the generating capacity in the region.

-FEO-

FEDERAL ENERGY OFFICE
Public Affairs
4001 New Executive Office Building
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December 13, 1973

FACT SHEET

Further Federal Energy Reductions Announced Today

The Federal Energy Reduction Program was instituted by the President on June 29, 1973, before the current crisis. It ordered an overall Federal reduction goal of 7 percent below projected energy demand during FY 1974. Under this program, the First Quarter Report, for the period from July through September 1973, revealed that the overall savings were more than 20 percent. Succeeding quarters may be less impressive because of unforeseeable circumstances such as DOD requirements associated with the Middle East or the vagaries of winter weather.

Further actions to intensify the momentum underway in the Federal Energy Reduction Program are both timely and realistic to maintain national leadership in an effort it is hoped other institutions will follow. The actions announced include the following:

Transportation

- Agencies are directed to reduce, by 20%, all automobile mileage driven during the first calender quarter of 1974. Appeals for exceptions for vehicles used in emergencies or essential public health services will be considered by the FEO.

- "50 mph" dashboard notices and bumper stickers will be put on all Government vehicles. This action will remind the federal driver to comply with the 50 mph limit and remind any driver behind him to also comply with 50 mph limits.

- Agencies will be required to undertake tune-ups of own automobiles not less than once a year or every 12,000 miles, whichever occurs first. This frequency of tune-up corresponds to the best frequency to ensure peak performance of each automobile in the fleet while maintaining reasonable maintenance cost levels.

- Agencies will be required to use fuel-efficient cars (compacts or sub-compacts) unless a larger automobile is absolutely essential to the mission.

- Use of Federal limousines and heavy sedans will be eliminated by January 1, 1974. Exceptions will be made only for the President, Vice President, and certain security needs. All leased limousines and heavy sedans will be returned to leasors.

E-73-14

- Carpooling will be encouraged in the following ways:

  - allocate all assigned Federal parking spaces using a point system that is based solely on the number of people in the car with no grade level adjustments.

  - special parking permits will be issued to unusually handicapped employees, executive level personnel, personnel who keep unusually long hours, and other personnel as designated by the agency head, but limited to no more than 10 percent of the agency's parking spaces.

  - some parking space will be allocated for two-wheeled vehicles with preference for bicycles. The amount of space will be reevaluated every six months.

  - the following point system will be used to eliminate ties for spaces allocated as above:

    1 point for each grade level of a carpool member

    1 point for each year of service of a carpool member.

Buildings

- During the seasonably cold months, heating temperatures shall be maintained at 65-68°F during working hours and shall be lowered to not more than 55°F during non-working hours.

- During the seasonably hot months, air cooling systems shall be held at not lower than 78°F during working hours.

  Note: Technical specifications in connection with the two strategies set forth above will be done in accordance with technical specifications under development by the Office of Energy Conservation in collaboration with the National Bureau of Standards and General Services Administration.

- During working hours, overhead lighting will be reduced to no more than 50 foot candles at work stations, 30 foot candles in work areas, and 10 foot candles in non-working areas (e.g. halls, stairways).

- Off-hour lighting, and all exterior lighting except for essential safety purposes (e.g. EXIT signs) will be eliminated.

- The energy efficiency of unitary air conditioning units for supply to Federal agencies will be given maximum consideration by the Administrator of the General Services Administration in establishing procurement specifications. He shall utilize life cycle costing in the procurement process.

- Purchasers will be directed to purchase more energy efficient air conditioners.

- Portable space heaters in Federal buildings and in federally-leased space are banned.

- Operation of outside heater-blowers and threshold heaters in Federal buildings is eliminated.

Other

- Federal contractors have been required to develop energy conservation programs and to designate conservation coordinating officers.

- An employee and agency awards program has been initiated for those who make outstanding contributions to energy conservation.

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December 13, 1973

Export Limitation Program Fact Sheet

Program Description

Today draft program regulations were published in the Federal Register for a program that would limit exports and ensure they do not rise sharply during the current crisis. The aim of the program is to avoid major increases in flow of petroleum products out of the country while not interfering with normal past trade patterns. As currently drafted the program would limit exports on the basis of individual product, exporter and country of destination relative to some baseline year. A decision has not yet been made on the baseline year to be used.

No date has been set for program implementation. The program has been published in the Register in order to elicit industry comment and to form the basis for immediate consultation with those countries that would be affected. This action was taken in order to comply with two bills recently passed by Congress and signed into law.

- The Alaskan Pipeline Act which directs that domestically produced crude oil should not be exported unless failure to do so will reduce the quantity and/or quality of petroleum available for direct U.S. consumption.

- The Emergency Allocation Act of 1973 which directs that all petroleum products will be totally allocated for use within the U.S. to the extent practicable and necessary.

The draft program will cover only those fuels now allocated under the basic allocation program also published in the Federal Register today (see attached list).

Implementation

The program would be implemented through the Department of Commerce export licensing system and under the authority of the Export Administration Act of 1969.

Over the next several weeks intensive consultation with foreign countries and domestic industry alike will be carried out.

E-73-16

Implementation

Effective immediately, an export licensing system will be placed into effect. This system is not designed to limit exports but will monitor export flows. If these flows become excessive action will be taken.

Quantity of Historic Exports

In the past ten months of 1973 and in the past, the export of crude oil petroleum products has been limited to very small quantities. For example fuels exported have amounted to less than 0.2 percent of total U.S. petroleum consumption.

Some summary data are given below.

U.S. Petroleum Fuel Exports 1/
(Thousands of barrels)

Country	1972	Jan. - Oct. 1973
Canada	3,589	3,840
Japan	991	1,634
Mexico	2,853	3,724
Europe	2,340	1,180
Other 2/	4,038	2,990
Total	13,411	13,368

1/ Includes: Residual fuel oil, Distillates, Jet fuel, Kerosene, Gasoline and crude.

2/ Includes: South America, Carribean and Asia.

Source: Department of Commerce.

PETROLEUM EXPORTS COVERED UNDER PROGRAM

Crude petroleum
Petroleum partly refined for further refining
Aviation gas
Gasoline NEC (including natural gasoline)
Gasoline blending agents
Kerosene
Jet Fuel
Distillate fuel oils
Residual fuel oils
Butane
Propane
Natural gas liquids (including LPG)

ITEMS TO BE MONITORED 1/

Aviation engine lubricating oil
Jet engine lubricating oil
Automotive, diesel, and marine lubricating oil
Turbine lubricating oil
Automatic gear oils
Red and pale oils
Bright stock
Black oils
Steam cylinder oils
Lubricating oils (NEC)
Lubricating greases
Petroleum jelly
Micro crystilline wax
Paraffin wax
Naphtha and mineral spirits
Insulating and transformer oils
Quenching or cutting oils
White mineral oils
Other non-fuel or non-lubricating petroleum oils
Pitch from petroleum refining
Pitch coke
Petroleum coke
Petroleum asphalt
Petroleum and shale oils residue NEC
Paving mixtures
Tar coating cements and mixes

1/ Reports required on a monthly or more frequent basis.

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DECEMBER 13, 1973

FACT SHEET ON OIL TO COAL

PROBLEM:

One of the most severe petroleum shortfalls is for residual fuels. A shortfall of 850,000 barrels per day is projected for the first quarter of 1974 which represents about one quarter of total demand. The main impact of this shortfall will be on the Atlantic seacoast where electric utilities burn 80% of the residual fuel.

PROGRAM OBJECTIVE:

The program policy is to reduce residual fuel demands to the maximum extent by converting plants where there is the capability for long-term conversion with minimal environmental impact and for which there will be coal available.

Where there is a regional shortfall causing acute problems it will be necessary to consider granting temporary, short-term variances to plants voluntarily seeking conversion. These decisions will be made after consultation with state and local authorities to evaluate environmental and energy alternatives on a regional basis.

WHAT HAS BEEN ACCOMPLISHED:

- 26 plants identified as having capacity for quick conversion with best chances for long-term commitments to the conversion and minimal environmental risk on health related environmental standards.

  Federal Energy Office Administrator William E. Simon sent telegrams on December 6, 1973, to the 19 utilities which own these plants urging conversion and asking them to provide plans and cite major problems.

- 200,000 barrels per day of residual fuel oil would be saved as a result of the conversions. New coal requirements would amount to 50,000 tons per day.

- Studies of coal supply indicate surge capacity adequate to meet this new demand. Utility companies stress main obstacle as obtaining coal suitable for burning in their boilers that would meet environmental standards.

- Two plants on the list -- Bergen and Burlington owned by Public Service Company of New Jersey --- already partially converted to coal.

- Representatives of the Federal Energy Office and the Environmental Protection Agency met on December 6, 1973, with New York and New Jersey environmental officials and several utilities to discuss Con Edison's variance requests for conversion of Arthur Kill and Ravenwood plants. Issue being addressed was to balance environmental and energy considerations on a regional basis and encourage coal conversion in New York area power plants.

- Decision announced today jointly by William Simon of FEO and Russell Train of EPA to grant variances for conversion of the Arthur Kill plant on a short-term basis. A number of other plants in the New York and New Jersey area will also be given variances by EPA to convert to coal.

- These plants will result in residual fuel savings of 43,100 barrels per day within two months, and about 53,300 barrels per day in six months.

<u>WHAT WILL BE DONE IN THE FUTURE:</u>

- Government consultation and assistance being given to eliminate problems to conversion of the plants which have been identified.

- National Electrical Reliability Council asked to provide a schedule for sequencing outages for conversion without disruption of service.

- Telegram sent to 40 companies in other parts of country to expand list of candidate plants for conversion.

- Studies being conducted by National Electrical Reliability Council through Federal Power Commission to determine fuel savings which would result from increasing loading of coal fired plants and "wheeling" electric energy from regions with surplus generating capacity to areas where oil shortages will be most severe.

Attachment:
Plants Which Have Been Asked
to Convert to Coal
1st Quarter of 1974

-FEO-

Attachment

Plants Which Have Been Asked
To Convert To Coal, 1st Quarter of 1974

Plant	City	State	Coal Required Tons/Day	Oil Saved Barrels/Day
Initial 26 Plants				
1. Sutton	Wilmington	N.C.	1,890	7,540
2. McManus	Brunswick	Ga.	973	7,890
3. Lovett	Tompkins	N.Y.	1,950	7,780
4. Middletown	Middletown	Conn.	1,320	5,290
5. Gilbert	Holland Twp.	N.J.	652	2,610
6. England*	Beesleys Pt.	N.J.	1,940	7,770
7. Port Jefferson*	Pt. Jefferson	N.Y.	3,030	12,100
8. Vienna	Vienna	Md.	405	1,620
9. South Meadow	Hartford	Conn.	670	2,679
10. Chesterfield	Chester	Va.	7,875	31,500
11. Norwalk Harbor	Norwalk	Conn.	2,105	8,420
12. Possum Point	Dumfries	Va.	3,450	13,800
13. Mt. Tom	Holyoke	Mass.	1,013	4,050
14. South St. Station	Providence	R.I.	725	2,900
15. Devon	Milford	Conn.	2,733	10,930
16. W. Springfield	W. Sprngfld.	Mass.	1,173	4,691
17. Down	Vineland	N.J.	350	1,400
18. Buzzard Point	Washington	D.C.	733	2,930
19. Barrett*	Island Park	N.Y.	2,325	9,300
20. Montville	Montville	Conn.	864	3,455
21. Bergen*	Ridgefield	N.J.	2,950	11,800
22. Morgantown	Newburg	Md.	6,000	24,000
23. Mason	Wiscassett	Maine	646	2,584
24. Shiller	Portsmouth	N.H.	748	2,992
25. Barbaoos	Philadelphia	Penn.	1,333	5,332
26. Burlington*	Burlington	N.J.	1,690	6,740
Subtotal			49,543	198,103
Plants Added to Initial List				
27. Arthur Kill*	New York City	N.Y.	3,000	13,000
28. Deepwater*	Deepwater	N.J.	1,300	5,000
TOTAL			53,943	216,103

*Plants asked to convert as a result of New York/New Jersey regional decision.

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DECEMBER 13, 1973

STATEMENT BY WILLIAM E. SIMON
ON EMERGENCY ACTIONS TAKEN TO ALLEVIATE THE
FUEL OIL SHORTAGES IN NEW YORK AND NEW JERSEY

We are pleased to announce today EPA's decision to permit the temporary relaxation of emissions limitations in New York and New Jersey. This decision will allow the emergency use of coal by certain power plants. It represents an important step in our cooperative efforts to deal with the critical energy problems that face our Nation this winter.

A letter has been sent to John Lindsay today assuring him that the Federal Energy Office will allocate residual fuel oil to utilities to minimize the impact of the shortages that we face. Also, the FEO will work to ensure that utilities which are not in areas where there are severe environmental problems will be the ones that are required to burn coal. The cable which was sent on November 29 to 19 utilities requesting that they convert certain power plants to coal was consistent with this objective.

However, the situation in New York is unique. Consolidated Edison represents major facilities facing severe problems and most of its plants are located in densely populated areas. Consolidated Edison voluntarily requested that it be allowed to burn coal now. FEO and EPA have studied Consolidated Edison's supply situation and we came to the conclusion that the use of coal on an emergency basis would be necessary to ensure adequate energy supplies to this region during the winter.

We believe that the Nation potentially faces a serious deficit of fuel oil even after allowing for effective emergency conservation measures. This shortage will fall more heavily in the Northeast and particularly in regions such as New York City. In these special situations, hard choices will have to be made. The decision today represents one of those hard choices. We believe that our announcement represents the best decision which could be reached, taking into consideration our environmental and energy needs.

-FEO-

Temporary telephone numbers of Federal Energy Office public affairs:

General Information	395-3537
Press Interviews	395-3497
Allocation Program	395-4672
Conservation	343-8634

FEDERAL ENERGY OFFICE
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FOR IMMEDIATE RELEASE DECEMBER 12, 1973

NEW PETROLEUM ALLOCATION RULES PROPOSED BY FEDERAL ENERGY OFFICE

Keeping food on the table, people at work, and maintaining the health of the Nation are key goals of the Mandatory Petroleum Allocation regulation proposed today by William E. Simon. "This is not rationing," Simon said, "but rather a system to ensure equitable distribution at the wholesale level."

The newly appointed Administrator of the Federal Energy Office said that the suggested allocation programs cover the entire barrel of oil -- from crude to all refined petroleum products.

The regulation is to become effective December 27, 1973 after consideration of comments from the public received through December 20 at 5:00 PM Eastern Standard Time.

"If, in such a monumental undertaking, there could be a key word," Simon said, "that word is flexibility. These allocation proposals are designed to supply the essential petroleum needs of all Americans -- from the average wage earner, the businessman, the farmer, the physician, to the nursing home resident."

The proposed regulation covers seven areas: crude oil; propane and butane; gasoline; middle distillates; aviation fuels residual fuel oil, and other products. Existing mandatory programs, covering propane and middle distillates only, remain in effect until December 27, 1973 when the Emergency Petroleum Allocation Act of 1973 and the regulation covering that Act become effective.

E-73-8

Program highlights:

Crude Oil

The proposed program specifies a mandatory program for the allocation of crude oil to refiners and a mandatory control of refinery yield, to provide refined products conforming to the demands of the various allocation systems proposed.

The refinery control program requires each refiner to limit gasoline production to 95 percent of the 1972 base period. This percentage may be revised quarterly by the Federal Energy Office. Refiners are urged to maximize production of distillates, residual fuel oils and petrochemical stocks in their resulting product mix.

Propane and Butane

The mandatory allocation program for propane, butane, and propane-butane mixes is intended to (1) meet the needs, within limits, of priority customers; (2) allocate equitably to nonpriority customers; and (3) constrain shipments of propane from merchant storage facilities.

Gasoline

In the allocation for gasoline (excluding aviation fuel), the following users are to be allocated 100 percent of current requirements: emergency services, fuel production, public passenger transportation and agriculture. Business users, including nonprofit and government users, are allocated 100 percent of their 1972 use. All others are allocated not more than 90 percent of their 1972 use.

"The gasoline allocation program does not include direct end-user rationing," Simon emphasized.

Middle Distillates

The allocation program for middle distillate fuels establishes two categories of users.

Category I, users for fuel production and for public passenger transportation are allocated 100 percent of current requirements, subject to ceiling limitations. Space heating users are allocated 100 percent of current requirements, consistent with a mandatory reduction in indoor temperatures. Vital community services and medical, dental and nursing services are allocated 110 percent of their 1972 use.

Category II users for the following purposes are allocated 110 percent of their 1972 use: industrial and manufacturing, food production and processing and cargo, freight, and mail hauling. All other users are allocated 100 percent of their 1972 use.

Aviation Fuels

There are three categories of aviation uses. Among civil air carriers, domestic lines are to be allocated 95 percent of their 1972 use until January 7, 1974, and 85 percent thereafter. Small regional airlines are to be allocated 95 percent of their 1972 use until January 7, 1974, and 90 percent thereafter. International carriers are allocated 100 percent of 1972 use before January, 7, 1974, and 85 percent therafter.

In general aviation, commercial and industrial users are allocated 90 percent of their 1972 use; business and executive users 80 percent; and personal pleasure and instructional users 70 percent of their 1972 use. Nonmilitary Federal agencies and States are allocated 85 percent of their 1972 use.

Residual Fuel Oil

Users for energy production, food production, essential community services, marine shipping and heating for health services will receive 100 percent of current needs. Heating users will be allocated residual fuel oil on the basis of a schedule of mandatory reductions in ambient inside temperature.

The electric utility industry will be allocated residual fuel oil on the basis of a computation to be made by the Federal Energy Office that will equalize possible electric power cutbacks.

Other Products

The seventh area covers all other petroleum products including lubricants and petrochemical feedstocks. With the exception of the petrochemical feedstocks, no priorities are specified and for allocations, normal business practices apply. There will be pro rata reductions if demand exceeds supply.

Petrochemical feedstocks allocations are based on up to 120 percent of 1972 base use.

"In order to minimize undesirable economic impact," Simon said, "priority status in the allocations proposed has been given to uses essential to the public health and welfare, with national defense given priority over certain general consumer uses." He gave these examples:

1. Each home, all industries, and all commercial and governmental buildings are expected to conserve energy used for space heating and cooling. Each of these classes is expected to control heating in the winter and air conditioning in the summer to maintain the temperature levels assigned to class. Home thermostats are to be lowered six degrees from last winter; and commercial, industrial, and other users are to lower thermostats 10 degrees.

2. Operators of private cars are expected to conserve fuel by less driving, carpooling, taking mass transportation, and using more energy-efficient vehicles when possible.

3. The Department of Defense shall receive 100 percent of its current requirements essential for mission performance as reviewed and approved in advance by the Administrator, Federal Energy Office.

"The proposed allocation program assumes that petroleum supplies will fall short of unconstrained demand at current prices over a period of years," Simon said. "Allocation as proposed in this program is viewed as a temporary expedient to assure equity, and prevent economic excesses during a period of transition to a more stable long-term solution. Attempts have been made to design the allocation and pricing mechanisms permitting relatively free market conditions in the future and looking toward eventual abandonment of most or all of the allocation mechanisms."

The complete notice of this Federal rulemaking proposal covering allocation, price and procedural regulations will be published in the Federal Register.

Since petroleum products are controlled by Cost of Living Council regulations, we do not expect price increases as a direct result of these allocation systems.

-FEO-

Temporary telephone numbers of Federal Energy Office public affairs;

General Information	395-3537
Press Interviews	395-3497
Allocation Program	395-4672

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FOR IMMEDIATE RELEASE DECEMBER 13, 1973

SIMON INVESTIGATES HEATING OIL PRICE SPREADS

William E. Simon, Administrator of the newly formed Federal Energy Office, met yesterday with representatives of the Northeastern Regional Advisory Committee to help resolve heating oil problems in New England and mid-Atlantic States.

Many wholesalers, with long-standing supply contracts with major oil companies, found their supplies reduced or cut off. The major U. S. oil companies retained dwindling supplies for their own operations and direct distributors, according to the Committee. "For this reason," Administrator Simon said, "many independent wholesalers were forced to buy foreign oil at high prices to ensure adequate supplies to their dealers."

Because the price of domestic oil is controlled and foreign oil is not, imported oil now costs about 55 cents a gallon in tanker lots, while oil produced in the United States costs about 17 cents. So independent dealers who have had to buy foreign oil must charge customers much more than those who have been able to get domestic oil.

"Although these price spreads are unfortunate," Mr. Simon stated, "New England and other mid-Atlantic States will gain hundreds of millions of gallons of additional heating this winter because the independent wholesalers bought expensive foreign oil rather than cutting back sales to their dealers." Administrator Simon emphasized that independent fuel dealers who buy from independent wholesalers are not permitted to overcharge their customers during the oil

(more)

E-73-9

shortage. The Cost of Living Council rules require that dealers not increase their price margins, but does allow them to "pass through" the cost of oil to their customers. Price controls have helped stabilize prices of domestic fuel oil, but have not affected prices of imported oil.

"It is critical that we keep the oil supplies coming into the colder areas of the country," Simon said, "and we must understand that we cannot control the price of oil that we import from foreign countries."

Administrator Simon told the Northeastern Regional Advisory Committee that he hopes the new Federal Energy Office allocation regulations, which were proposed today, will help create a more equitable distribution of low-cost domestic oil throughout the Nation.

-FEO-

Temporary telephone numbers of Federal Energy Office public affairs:

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FOR IMMEDIATE RELEASE DECEMBER 13, 1973

FEDERAL AGENCIES CUT FUEL USE 20.8 PERCENT--SAVE $160 MILLION

William E. Simon, Federal Energy Administrator, today released a report showing that energy consumption by the Federal Government was reduced 20.8 percent during July, August, and September 1973, compared to projected demand for the period. Monetary savings amounted to about $160 million.

President Nixon's energy message of June 29 called for a seven percent reduction by the Federal Government and a five percent cut by private consumers and industry.

"The only way we can get the public to cooperate in energy conservation is if the Government sets an example and demonstrates leadership. I am pleased to see our first Federal results in this effort; but we've got to find still more ways to save fuel.

"I've had my staff so busy in the past 10 days," Simon jested, "that they must have generated enough body heat to help make the next Federal conservation report look pretty good. But I can tell you, that's a pretty exhausting way to save fuel."

(more)

E-73-10

The Office of Energy Conservation, of Simon's new Federal Energy Office, concludes that circumstances were favorable for energy conservation during the period, and that October-November-December savings may bring the average for the six-month period closer to the original seven percent goal.

Nevertheless, Mr. Simon was enthusiastic over the initial Federal response to the energy shortage. "This program was launched practically overnight," he said, "and already we have tangible results. We're headed in the right direction."

Federal energy consumption was divided into two major categories in the report: Buildings and facilities (primarily electricity and heating) and vehicles and equipment (primarily gasoline and diesel oil).

Gasoline use through the government was cut by 27.6 percent during the period--from 163 million gallons to 118 million. Fuel oil use was cut 15.7 percent, from 140 million to 118 million. Electricity use was cut by 2.5 percent.

The reduction in gasoline consumption was achieved primarily by the Defense Department. Civilian agencies cut gasoline consumption three percent.

Stronger efforts to cut gasoline consumption will include use of more small cars in the government fleet--as they become available. Like many prospective car buyers, the government is finding that demand for economical models far exceeds supply.

Department of Defense led all other agencies covered in the report with a cutback of 22 percent. Other agencies which met or exceeded the seven percent goal included National Aeronautics and

Space Administration, Veterans Administration, General Services Administration, and the Departments of Agriculture, Transportation, and Health, Education and Welfare.

DOD's rate of reduction will be difficult to maintain, officials say; emergency defense needs such as the Mideast alert can greatly increase the Department's fuel use. Unexpected developments also affected energy use in other agencies. Agriculture, for example, had to postpone some field research last summer because of bad weather.

Mr. Simon also announced today formation of a Presidential Federal Awards program, whereby cash and honorary awards can be given to Federal employees and agencies who make outstanding contributions to energy conservation.

"Government workers have already shown that they can cut energy use," Simon stated. "The awards program will recognize their efforts and, I hope, stimulate them to still higher energy-saving in the future."

All told, the Federal Government consumes almost three percent of the energy used in the United States. Most Federal buildings reflect the new emphasis on energy conservation--with fewer lights in halls and offices, and thermostats set at 65-68 degrees.

The President's energy-saving report ranked the ten top agencies as follows:

(more)

	Billions of BTU's Saved	Percent Savings
Department of Defense	107,000	22.4
National Aeronautics and Space Administration	1,480	17.0
Atomic Energy Commission	1,300	5.8
General Services Administration	1,200	7.0
Department of Transportation	1,120	20.8
Department of Agriculture	530	16.7
Veterans Administration	460	10.7
Department of Health, Education and Welfare	170	9.6
Department of the Interior	160	6.6
Department of Commerce	63	6.5

-FEO-

Note to Correspondents: Copies of the report are available from Office of Energy Conservation, Federal Energy Office, Washington, D. C. 20240; telephone (202) 343-8634.

Temporary telephone numbers of Federal Energy Office Public Affairs:

General Information	395-3537
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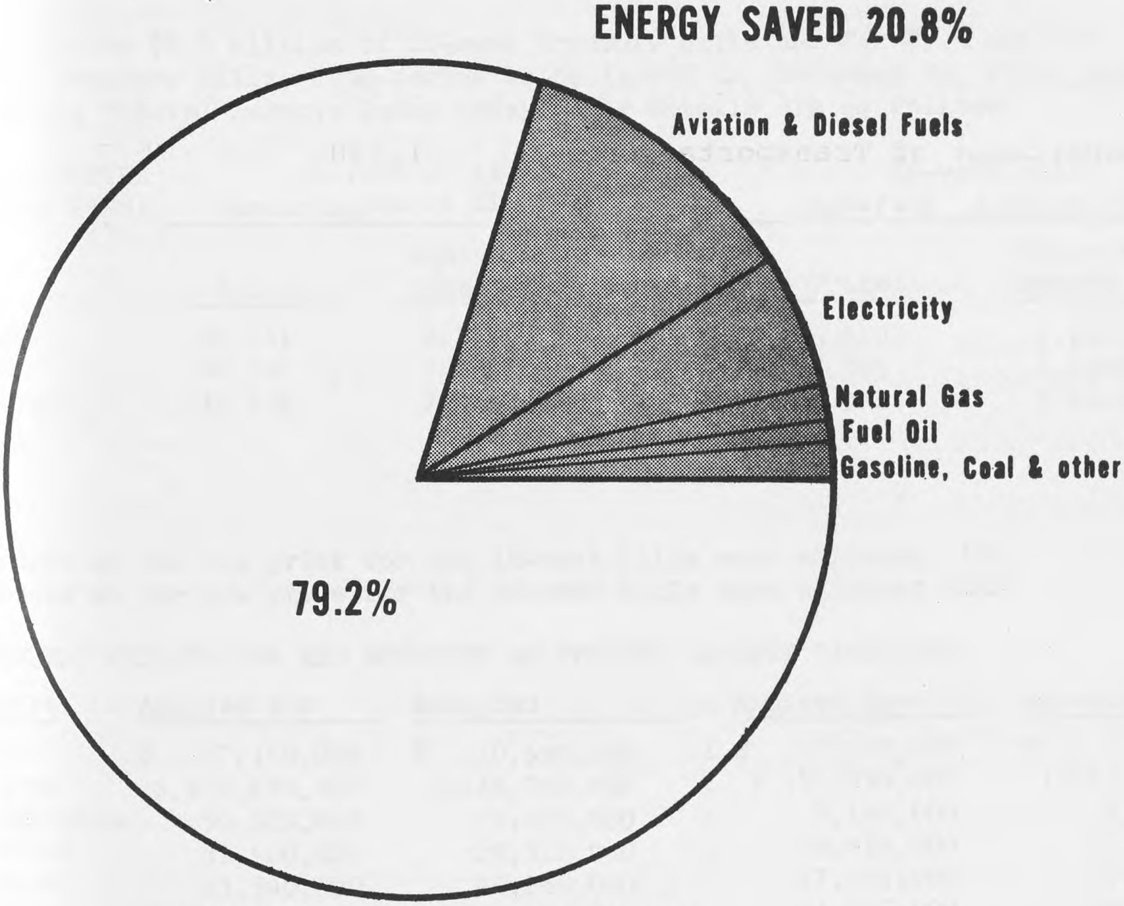
Allocation Program	395-4672
Energy Conservation	343-8634

FIGURE I

FEDERAL AGENCY ENERGY CONSERVATION FIRST QUARTER, FISCAL YEAR 1974



BASELINE ENERGY CONSUMPTION

The 20.8 percent savings are based upon anticipated energy use during the First Quarter, FY 1974

Savings, expressed as barrels per day	
Aviation and diesel fuels	445,000
Electricity	202,000
Natural Gas	52,000
Fuel Oil	30,000
Gasoline, coal & other	51,000

Dec/74

U. S. GOVERNMENT PRINTING OFFICE : 1973 O - 528-798

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

263

R RELEASE 6:30 P.M. December 17, 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 December 20, 1973, were ened at the Federal Reserve Banks today. The details are as follows:

NGE OF ACCEPTED MPETITIVE BIDS:	13-week bills maturing March 21, 1974		26-week bills maturing June 20, 1974	
	Price	Equivalent annual rate	Price	Equivalent annual rate
High	98.151	7.315%	96.410	7.101%
Low	98.134	7.382%	96.361	7.198%
Average	98.138	7.366% 1/	96.378	7.164% 1/

Tenders at the low price for the 13-week bills were allotted 73%.
Tenders at the low price for the 26-week bills were allotted 100%.

TAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 37,390,000	$ 20,590,000	$ 17,370,000	$ 7,370,000
New York	3,972,875,000	2,226,760,000	2,451,830,000	1,482,845,000
Philadelphia	50,525,000	23,675,000	9,190,000	8,690,000
Cleveland	32,900,000	29,310,000	40,615,000	22,740,000
Richmond	23,540,000	16,860,000	17,385,000	10,035,000
Atlanta	27,450,000	19,445,000	21,735,000	18,205,000
Chicago	301,655,000	53,615,000	172,250,000	66,810,000
St. Louis	62,700,000	26,280,000	65,065,000	46,835,000
Minneapolis	25,940,000	5,345,000	27,125,000	17,125,000
Kansas City	35,080,000	28,360,000	25,830,000	20,780,000
Dallas	35,600,000	14,400,000	35,860,000	9,660,000
San Francisco	155,600,000	36,490,000	158,545,000	88,770,000
TOTALS	$4,761,255,000	$2,501,130,000 a/	$3,042,800,000	$1,799,865,000 b/

a/ Includes $ 324,830,000 noncompetitive tenders accepted at the average price.
b/ Includes $ 172,270,000 noncompetitive tenders accepted at the average price.
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 7.61 % for the 13-week bills, and 7.54% for the 26-week bills.

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264

FOR IMMEDIATE RELEASE DECEMBER 17, 1973

SIMON RECOGNIZES NEEDS OF PHARMACEUTICAL INDUSTRY

William E. Simon, Administrator of the Federal Energy Office, today assured the nation's pharmaceutical industry adequate fuel to continue production of essential drugs, and to carry out priority research.

"Manufacturers of pharmaceuticals will receive 100 percent of current fuel needs for essential production and research," Mr. Simon said, "but they must carefully examine their own priorities, to ensure that essential products continue to be produced, while other, less essential products, are cut back."

"We are also giving the petrochemical industry priority for the feedstocks needed in the manufacture of petrochemical products, thus allowing them to provide these products to the pharmaceutical industry to formulate, produce and package essential products."

"However," he emphasized, "even the pharmaceutical industry must be prudent in use of both fuel and petrochemical products. Our allocation of 100 percent of current needs is not a license to conduct "business as usual" but rather recognition of the essential health needs of those who depend on pharmaceutical products. "The industry must provide controlled temperatures for experimental procedures, but I expect offices and similar facilities to be 10 degrees cooler, as with all commercial fuel users. Even though the pharmaceutical industry uses only a small portion of oil supplies, we recognize that their products are essential to the physical and economic health of this nation.

-FEO-

Temporary telephone numbers of Federal Energy Office public affairs:

General Information	395-3537
Press Interviews	395-3497
Allocation Program	395-4672
Conservation	343-8634

E-73-21

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265

FOR IMMEDIATE RELEASE DECEMBER 18, 1973

ADMINISTRATOR SIMON NAMES
ASSISTANT ADMINISTRATOR FOR ADMINISTRATION

Federal Energy Office Administrator William E. Simon today announced the appointment of Bruce A. Wilburn, 40, as Assistant Administrator for Management.

Mr. Wilburn, a former Associate Director of ACTION, will be responsible for the administration and support machinery of the new Federal agency.

A West Point and Harvard Business School graduate, Mr. Wilburn immediately went to work at FEO's temporary headquarters in the New Executive Office Building.

"I see this position as a challenge. Our job is to set up the administrative and support machinery that will enable the line organization of FEO to accomplish the mission assigned by the President," Mr. Wilburn said today.

At the ACTION agency, Mr. Wilburn was the chief administration and financial officer since 1971.

Prior to 1971 he was a lecturer and member of the faculty at Harvard University, where he founded and directed the Middlesex Research Center.

From 1964 to 1971 he was a principal partner in the management consulting firm of Peat Marwick Livingston and Company in Boston, Massachusetts. He directed management consultant activities in both government and industry.

266

A former artillery officer, following his graduation from the U. S. Military Academy, Mr. Wilburn is a native of Chicago, Illinois, but was raised and educated in Port Washington, Wisconsin.

He lives with his wife, the former Karen Buchanan, and two children, Leslie, 8, and Joshua, 6, in Bethesda, Maryland.

-FEO-

Temporary telephone numbers of Federal Energy Office public affairs:

General Information	395-3537
Press Interviews	395-3497
Allocation Program	395-4672
Energy Conservation	343-8634

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247

FOR IMMEDIATE RELEASE DECEMBER 18, 1973

ENERGY ADMINISTRATOR GETS ADVICE FROM CITIZENS

William E. Simon, Federal Energy Office Administrator, listened to expert advice yesterday from two of the Citizen Advisory Committees he just formed.

Simon made it clear to the groups that he wanted views from all segments of society so his agency could devise "plain language, workable rules and not just high-sounding programs that won't work."

Because of the special role they play in the energy field, Simon met Monday with his two petroleum advisory committees, the independent producers in the morning, and the major oil producers in the afternoon.

He will meet with the other advisory committees through the week, including agriculture this afternoon. Meetings with consumers, businessmen, environmental, and State legislature representatives have also been scheduled.

The oil advisory committees centered their comments on the proposed FEO regulations, which were ordered by the recently enacted Mandatory Allocation Act and issued on December 13. They will go into effect on December 27, unless a delay is granted.

268

The discussions with Simon included: comments on the Cost of Living Council's two-tier pricing system of oil products; suggestions with respect to implementation and staffing of the allocation program at the local level; and the impact of imported oil prices on future domestic oil prices.

Simon and his top advisors invited comment, not only from all groups but pledged, "A thorough review will be made of all suggestions."

"The main goal of our program is to make it as equitable as possible for all people in order to get the help and cooperation we need to get us through this crisis," he told the groups.

-FEO-

Temporary telephone numbers of the Federal Energy Office public affairs:

General Information	395-3537
Press Interviews	395-3497
Allocation Program	395-4672
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269

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EMBARGOED FOR RELEASE UNTIL
9:30 A.M. EST, MONDAY, DECEMBER 17, 1973

REMARKS BY THE HONORABLE WILLIAM E. SIMON
ADMINISTRATOR, FEDERAL ENERGY OFFICE
DEPUTY SECRETARY OF THE TREASURY
BEFORE THE
AGRICULTURAL OUTLOOK CONFERENCE
U. S. DEPARTMENT OF AGRICULTURE
WASHINGTON, D. C.
DECEMBER 17, 1973

Fuel And The Needs of Agriculture

I am delighted to have the opportunity to participate in your Agricultural Outlook Conference. There are two reasons. First, I consider agriculture a top priority in our efforts at the Federal Energy Office to allocate scarce fuel supplies in a manner that best serves the National interest. Second, I believe Agriculture will be one of our best allies in the difficult days ahead.

I base this belief on what the Department of Agriculture and American farmers have already done to help the country. Secretary Butz, Under Secretary Phil Campbell, and the Department have done an outstanding job. Since last spring, county and State offices of the Agricultural Stabilization and Conservation Service have been monitoring the farm fuel situation, verifying shortages and bringing individual farmer's problems to the attention of State agencies and the Federal Office of Oil and Gas. In addition, USDA has detailed more than 30 experts to the Office of Oil and Gas to help solve farm fuel problems.

Individual farmers and the many farm associations have also responded to this emergency with the kind of support and cooperation that is so essential to the success of our efforts to cope with the current fuel shortage. I commend you all for your past help and urge you to continue providing us this valuable support in the future. Working together, I am confident that the Federal Energy Office and American agriculture can meet the challenge that now confronts us.

I would like to begin my discussion this morning by reviewing with you briefly the nature and the scope of our energy shortage. It is important to see this problem in its true perspective because many misconceptions have developed since the Arab boycott went into effect last October. Then I would like to focus on the particular problems the fuel shortage has created for agriculture and what we are doing to help solve them.

Facts About The Shortage

Let's briefly review some of the pertinent facts about the energy shortage. Roughly 85 percent of the energy consumed

270

in the United States is available from domestic sources. The remaining 15 percent of United States energy is derived from imported oil, with a substantial portion of this supply coming from Arab countries. As such, we now estimate that the Arab boycott will create a shortfall of about 7.5 percent of total U. S. oil requirements for the fourth quarter of 1973 and about 17 percent for the first quarter of 1974.

The magnitude of this shortage should not cause us to panic. Timely conservation steps and other measures are already helping us adjust to this diminishing supply of imported oil. I do recognize, however, that the problems created by the shortage will differ throughout the economy. Some industries, like transportation, depend almost exclusively on petroleum products; and, in others, including agriculture, the possibility over the near term of substituting other energy sources is difficult.

However, it is important to realize that we have been a nation of great energy wastrels. With six percent of the world's population, we consume over one-third of the world's energy and obviously there is a lot of waste in that consumption. We have been accustomed to an overabundance of cheap energy. That day has ended. We must change our life styles and be more thoughtful.

I believe that the American people will respond and I do not accept dire forecasts that industry will bear the full burden of the shortfall. There is no question that industries will have to improve the efficiency of their energy utilization; but our main thrust will be to get the consumer to save, so that there will be the least possible effect on industrial production and employment.

Our studies show that practical conservation measures with respect to gasoline, heating oil, and electricity could help us cut three to five million barrels of oil a day from our current consumption of over 18 million barrels--enough to meet the shortfall created by the boycott.

However, even if the Arab boycott is lifted, we will still have energy problems. The demand for energy in the United States has been growing at an annual rate of about four percent, and, if the present trend continues, our energy needs by 1990-- just 17 years from now--will be twice as large as that of 1973. Our goal is to achieve self-sufficiency in energy by the end of this decade. To achieve this, we must continue to reduce demand while we are developing alternate sources of energy to increase future supplies.

What Is Being Done About It?

Thus we are faced with both short-term and long-term problems. Among the short-term steps that have already been taken, the President has asked that retail sales of gasoline be stopped on Sundays; he has asked refineries to reduce gasoline deliveries to wholesalers and retailers; he has asked for a voluntary 55 m.p.h. speed limit for buses and trucks, and a 50 m.p.h. speed limit for automobiles; and he has requested an end to promotional, display, and ornamental lighting by commercial establishments.

271

Just last week, we asked for reduced lighting in all commercial buildings, including retail establishments, factories, and offices to 50-foot candles at work stations, 30-foot candles for general work and sales areas, and 10-to-15-foot candles in hallways and corridors. It is estimated that an equivalent of 800,000 barrels of oil per day can be saved by this action. As soon as Congress provides us the necessary legislation, these measures will all become mandatory.

Last Saturday morning, President Nixon signed the bill that will put the United States on daylight saving time on a year-round basis for a period of about two years. This will go into effect on January 6th. We estimate that the equivalent of 150,000 barrels of oil a day will be saved during the winter months by this action.

These short-term steps are only the beginning. We are prepared to take whatever additional action that becomes necessary:

(1) We must decrease gasoline consumption. This may require some combination of gasoline price increases, taxes and rationing, as well as voluntary and mandatory conservation measures.

(2) We must further reduce residential and commercial energy use. Large fuel reductions can be made here without causing job reductions or loss in industrial output. This will require some price increases or taxes on natural gas and electricity, in addition to the allocation program.

(3) We will shift refinery output to increase supplies of fuel oils and vital petrochemical feedstocks.

(4) We are exploring plans to convert commercial airliners from kerosene to naphtha-based jet fuel. This will make the supplies of critically short distillate stocks available for other users.

(5) We are pressing forward to switch utility plants from oil to coal. I have urged 19 utilities on the Atlantic Coast to make such a shift at 26 electric power plants, and I am preparing to contact 40 additional utility companies throughout the country to determine their capability of making similar conversions.

(6) We are urging States to increase the maximum efficiency rate of production on oil wells.

(7) I have directed the Internal Revenue Service to investigate and take action against illegally high fuel prices being charged for interstate trucks, to ensure that farm commodities get to market.

(8) I have established ten new regional Federal Energy Offices and appointed interim directors who are already on the job.

So we are moving ahead on many fronts to meet the problems of our current energy shortage. And now I would like to focus on the particular problems we face in agriculture.

Vital Role Of Farmers

As I mentioned earlier, agriculture is receiving top priority at the Federal Energy Office. We're doing this for one simple reason--agriculture is vital to the health of this Nation's population and vital to the health of its economy. The future stability of our dollar is dependent on our balance of payments, and a major ingredient in providing us with a surplus will continue to be agricultural exports.

272

For example, in the first ten months of this year, agricultural exports reached an estimated $13.6 billion--a new record. In fiscal 1974, the period between last July first and the end of next June, we estimate farm exports will reach approximately $19 billion. I can assure you that we are very much aware of the great contribution agriculture is making to the American economy, and we will make every effort to provide farmers the fuel supplies they need.

Fueling The Farms

If American farmers plant 10 million additional acres next year--and this acreage is available--farm fuel needs will increase by more than one million barrels of gasoline, about twelve million barrels of diesel fuel, and approximately two to four million barrels of liquefied petroleum gas. There is no question that farmers will have to contribute to energy conservation, just like other sectors of the economy. However, I believe that "farm needs" are really national needs.

For that reason, in the Mandatory Allocation Regulations we proposed last week, which will become effective on December 27, the Federal Energy Office has made the following provisions for agricultural production:

(1) Gasoline will be provided to agricultural users on a priority basis, supplying 100 percent of what they need.

(2) Propane, butane, and mixes will be provided to agricultural users on a priority basis, supplying 100 percent of what they need.

(3) Residual fuel oil will be provided to agricultural users on a priority basis, supplying 100 percent of what they need.

(4) Regarding diesel fuel allocations, we are attempting to design regulations that will provide for the needs of agriculture, utilizing a suitable base period.

We established these priority allocations because we realize how much the Nation depends on agriculture and how much agriculture depends on an adequate fuel supply. If the farmers, dairymen, livestock raisers, and commercial fisherman are going to provide the increased production they have been asked to produce next year, they must get the fuel they need to do the job. We at the Energy Office are determined to see that these fuel supplies are forthcoming.

But we cannot do the job alone. We are counting on the continued cooperation of the agricultural community, and we are counting on the help and support of the American public. Without a united effort on the part of all our people--and every segment of our economy--the Federal Government cannot solve the energy problem.

Looking Ahead

The Federal Energy Office will be two weeks old tomorrow. My staff has been working long hours every day, including weekends, to accomplish the job President Nixon gave us on December 4th. I would like to conclude my remarks by telling you how we plan to carry out our mission.

-- First, we will seek to minimize the economic impact of the energy shortage through conservation of energy by the consumer and through more efficient utilization of energy by industry and agriculture.

273

-- Second, we will maintain a flexible approach. We must put sound long-range policies into place but we must also be able to adjust to short-term needs.

-- Third, we will actively seek the advice and cooperation of the Congress, State and local governments, industry, agriculture, and consumers. For example, last week we created seven Citizen Advisory Committees to give us expert advice and information in dealing with the energy crisis. The 22-member Agriculture Committee will be helping us in the decision-making with respect to the farmer's problems and needs.

-- Fourth, and finally, we will act. Energy policy now calls for action and we will do whatever is needed to put this country on the road to self-sufficiency, which is our ultimate goal.

Although some aspects of our energy problem have been exaggerated, and there are some misconceptions regarding our present situation, an energy crisis does exist in America today. I would be the last person to deny that. However, a crisis has the potential of producing benefits.

The Chinese word for crisis, as many of you know, is composed of two symbols--one represents danger and the other represents opportunity. I firmly believe that we, as a united people, can avoid the dangers inherent to our present crisis. I also believe we have the intelligence and foresight to capitalize on the opportunity that now lies before us.

In the months ahead we have the opportunity to make those changes that we should have been working on for many years. Because of our present problems, this country has started to mobilize its talents and resources to achieve self-sufficiency in energy. We are now committed to create not only self-sufficiency but a domestic supply of clean energy, which is so essential to sustain healthy economic growth, including a strong and flourishing agriculture economy, and to improve the quality of life in this country for generations to come.

Thank you.

-oOo-

Thelma —
pls file.
(This will be in an advertisement)

STATEMENT ON PRODUCTIVITY
FOR U.S. STEEL
SECRETARY GEORGE P. SHULTZ
December 4, 1973

2 74

The Arab oil boycott has done for the United States what no amount of speechmaking can do. It woke up this country to the need to change our habit of wasting energy. Thanks to the serious oil supply problem the nation must now squeeze the waste out of our energy usage.

I see this as a valuable exercise for us. The fuel shortage should teach individuals, business, industry, labor and government to question if there are not better, less expensive, more efficient ways of doing what needs to be done.

Is there any sense in having government regulations, business practices or work practices that perpetuate waste of any resource, whether it be energy, manpower or capital? Is there any sense in having government regulations on back-hauling that force trucks to travel empty one way -- needlessly consuming fuel and wasting man-hours while adding to the ultimate cost of production? Why adhere to such specialization of job duties that one team of workers is idled while another specialty team performs a preparatory job? Such practices make houses, office space and plants more expensive, not better.

America's production of goods and services is burdened by such waste. The cost in the end is paid by consumers and taxpayers. Over the past two decades a nation that prides itself on its remarkable ingenuity has allowed other industrial nations to surpass it in productivity gains.

The implications for our standard of living and the quality of our life are strong. Only high and continuous gains in effectiveness will permit the nation to divert some of its resources from immediate production to pursue social and environmental goals. To attain these goals we must encourage and apply technological innovations, invest in capital equipment and improve managerial techniques. We must also stress the human factors of production: improving skills and education, accepting change, providing greater job security, and establishing more satisfactory work schedules. Improvements in these areas will raise our output per unit of the resources we use. As productivity goes up, less goes into making more. Goods and services become less expensive, and workers enjoy shorter workdays, longer vacations, more pay, or some combination.

The challenge of stimulating this country to greater productivity gains lies before labor, management and government. Each group would do well to follow the pioneering labor-manageme effort in the steel industry. The union and the companies set o several years ago to improve efficiency in a beleaguered industr and contributed substantially to making American-produced steel competitive again. The effort helped save jobs and make possible an increase in the production of steel now, when we need it to produce energy and many other things we want

227

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FOR IMMEDIATE RELEASE DECEMBER 17, 1973

AUGUST AND SEPTEMBER 1973
RESIDUAL FUEL OIL PRICES RELEASED

William E. Simon, newly appointed Administrator of the Federal Energy Office, today released prices of residual fuel oil for August and September. Simon is also Deputy Secretary of the Treasury.

Because of the fast pace of developments, including the establishment of the new FEO, residual fuel oil prices for August and September 1973 are being released together. Regular monthly publication will be resumed with the figures for October.

The average price of East Coast tanker, pipeline, and barge quantities of residual fuel oil delivered to purchasers for resale increased 27¢ a barrel from July to $4.27 in August and to $4.39 in September.

Tanker and pipeline deliveries to East Coast electric utilities went from $4.00 a barrel in July to $4.15 in August to $4.43 in September.

For tanker, pipeline and barge quantities, East Coast marketers in August paid an average of $4.47 a barrel for residual fuel oil with sulfur content of one percent maximum, an increase of eight cents from July. The average went to $4.71 a barrel in September. For residual fuel oil with sulfur content of 1.5% through 2.2%, the August average went to $3.75 a barrel, an increase of 47¢, and to $3.88 in September. Residual fuel oil with sulfur content in excess of 2.2% averaged $3.21 in August, an increase of 28¢ a barrel, and to $3.39 a barrel in September.

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

Attachment

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Temporary telephone numbers of Federal Energy Office public affairs are:

General Information	395-3537
Press interviews	395-3497
Allocation Program	395-4672

E-73-5

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

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

SEPTEMBER 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	$4.39	$2.43	$NR[4/]	$NR	$--	$NR	$NR	$3.66	$NR	$NR
2. Truck or tank car	5.02	4.19	4.88	4.45	5.79	5.28	NR	4.18	NR	3.10
B. To electric utilities:										
1. Tanker or pipeline	4.43	4.70	4.59	NR	4.95	--	3.51	NR	3.84	NR
2. Barge	4.55	4.79	NR	NR	5.19	NR	3.95	5.00	4.26	NR
3. Truck or tank car	4.64	--	NR	--	--	--	--	--	NR	--
C. To other consumers:										
1. Barge	4.17	3.52	5.02	4.67	4.86	4.04	3.94	3.13	2.98	3.46
2. Truck or tank car	4.74	3.85	4.96	3.71	5.23	4.90	4.51	3.82	3.70	3.56

PART II. PURCHASES BY MARKETERS Tanker, Pipeline or Barge	All Regions	Region A	Region B	Region C	Region D
Sulfur content:					
A. 1% maximum	$4.71	$5.11	$5.17	$4.37	$NR
B. Over 1% thru 1.5%	--	--	--	--	--
C. Over 1.5% thru 2.2%	3.88	NR	4.12	--	NR
D. Over 2.2%	3.39	NR	--	NR	NR

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

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

AUGUST 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	$4.27	$2.61	$4.32	$NR [4/]	$5.21	$NR	$4.52	$3.82	$4.12	$NR
2. Truck or tank car	4.56	4.06	4.68	4.26	4.61	5.20	4.72	4.05	NR	3.05
B. To electric utilities:										
1. Tanker or pipeline	4.15	4.54	4.50	NR	4.51	--	3.42	NR	3.58	NR
2. Barge	4.18	4.76	NR	NR	4.66	NR	3.93	4.80	4.04	NR
3. Truck or tank car	4.48	--	NR	--	--	--	--	--	4.39	--
C. To other consumers:										
1. Barge	4.00	3.45	4.67	4.47	4.71	NR	3.82	2.94	3.00	3.35
2. Truck or tank car	4.56	3.61	4.87	3.39	5.09	4.78	4.26	3.91	3.55	3.12

PART II. PURCHASES BY MARKETERS Tanker, Pipeline or Barge	All Regions	Region A	Region B	Region C	Region D
Sulfur content:					
A. 1% maximum	$4.47	$4.47	$4.92	$4.42	$NR
B. Over 1% thru 1.5%	--	--	--	--	--
C. Over 1.5% thru 2.2%	3.75	NR	NR	--	NR
D. Over 2.2%	3.21	NR	NR	NR	NR

278

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	4.64*	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	$4.66*	$4.63	$4.41	$NR
B. Over 1% thru 1.5%	NR	--	NR	--	--
C. Over 1.5% thru 2.2%	3.28*	NR	--	--	NR
D. Over 2.2%	2.93	NR	--	NR	3.02

* Revised

1/ Excludes intracompany transactions in which exchanges of goods and/or services are significant, sales to the Department of Defense, and sales outside the United States.
2/ Reflects all allowances and charges, including delivery charges of vendor.
3/ Regional classification by destination. Regions consist of: A, New England; B, New York and New Jersey; C, Pennsylvania, Delaware, Maryland, District of Columbia, and Virginia; and D, North Carolina, South Carolina, Georgia, and Florida.
4/ NR - not released in order to avoid possible disclosure of individual company information.

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274

FOR IMMEDIATE RELEASE DECEMBER 14, 1973

ADMINISTRATOR SIMON ANNOUNCES FORMATION OF CITIZEN ADVISORY COMMITTEES

Federal Energy Office Administrator William E. Simon today announced the formation of seven Citizen Advisory Committees to give him expert counsel and information in dealing with the Nation's energy crisis. Membership on these committees includes agricultural, business, consumer, environmental, petroleum industry, and State legislature leaders.

"A principal objective in establishing these committees is to ensure that the great diversity of interests and talents in our society are considered in the decision-making process and fully utilized," Administrator Simon said.

The Administrator pointed out that the independent sector of the petroleum industry--because of its vital role in supplying the fuel needs of consumers--has the largest committee, which is organized on a regional basis.

Expressing his pleasure over the high calibre of people who have agreed to serve on these committees and help the Nation through this time of crisis, he stated: "It is important that this new agency get expert advice from all segments of America so that we can do the most effective job of solving our energy problems."

Attachment
list of committees and members

-FEO-

E-73-19

ATTACHMENT

FEDERAL ENERGY ADMINISTRATION

Citizen Advisory Committees

Citizen Advisory Committees Coordinator
Mr. Edwin (Al) Kuhn
Office of Oil and Gas
U.S. Department of the Interior
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280

AGRICULTURE COMMITTEE

Chairman: Mr. William J. Kuhfuss

American Farm Bureau Federation
William J. Kuhfuss, President
Park Ridge, Illinois

Tobacco Representative
Dr. Kenneth R. Keller, Assist. Director, Tobacco Research
North Carolina State University
Raleigh, North Carolina

The National Grange
John W. Scott, Master
Washington, D.C.

National Potato Council
Clarence Parr, President
Burley, Idaho

Sugar Cane Growers Co-op of Fla.
George Wedgeworth, President
Belle Glade, Florida

National Broiler Council
Tam Etheridge, Chairman of Board
Carthage, Mississippi

Grain Sorghum Producers Ass'n.
A. W. Anthony, Jr., President
Friona, Texas

National Livestock Feeders Ass'n.
Milton Brown, President
Mt. Pleasant, Michigan

National Ass'n. of Wheat Growers
Ray Davis, President
Potter, Nebraska

American Soybean Ass'n
W.B. Tilfon, President
Plainview, Texas

National Beet Growers Federation
Robert C. Holmes, Past President
Nyssa, Oregon

Vegetable Growers Ass'n of America
Charles M. Creuziger, Pres.
Sturtevant, Wisconsin

American Feed Mfgrs. Ass'n.
Glenn E. Edick, Chairman of the Board
Syracuse, New York

American National Cattlemen's Ass'n.
Gordon VanVleck, President
Plymouth, California

National Council of Farmer Cooperative
W. Gordon Leith, President
Kansas City, Missouri

National Grain & Feed Ass'n.
John H. Frazier, Jr., President
Chicago, Illinois

National Milk Producers Fed.
Glen Lake, President
Detroit, Michigan

National Cotton Council of America
Mike Maros, President
Memphis, Tennessee

National Soybean Processors Association
James R. Spicola, President
Minneapolis, Minnesota

Western Growers Association
Daryl Arnold, Executive Vice President
Newport Beach, California

National Corn Growers Ass'n.
Thurman Gaskill, President
Corwith, Iowa

(more)

AGRICULTURE COMMITTEE (cont'd.)

National Association of State Department of Agriculture
Donald Wilkinson, President
Madison, Wisconsin

Administrative Liaison
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Assistant to the Undersecretary of Agriculture
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281

BUSINESS COMMITTEE

(Note: This committee also serves as the National Industrial Energy Conservation Council.)

Chairman: Secretary of Commerce
Frederick B. Dent
Washington, D.C.

Industry	Company	Chief Executive
Aluminum	Aluminum Company of America Pittsburgh, Pennsylvania	John D. Harper President and Chief Executive Officer
Rubber	B. F. Goodrich Co. Akron, Ohio	O. Pendleton Thomas Chairman & Chief Executive Officer
Steel	Bethlehem Steel Bethlehem, Pennsylvania	S. S. Cort Chairman
Aerospace	Boeing Company Seattle, Washington	Malcolm T. Stamper Chairman & Chief Executive Officer
Shipping	Chevron Shipping San Francisco, California	L. C. Ford President
Utilities	Detroit Edison Company Detroit, Michigan	William G. Meese President and Chief Executive Officer
Textiles	Deering-Milliken New York, New York	Roger Milliken President
Chemicals	Dow Chemical Co., Inc. Midland, Michigan	C. B. Branch President
Food Processing	Esmark, Inc. Chicago, Illinois	Donald P. Kelly President
Autos	Ford Motor Company Dearborn, Michigan	F. G. Secrest Exec. Vice President
Electrical	General Electric Co. New York, New York	Reginald H. Jones President
Fishing	Point Judith Cooperative Point Judity, Rhode Island	Jacob Dykstra President

(more)

BUSINESS COMMITTEE (CONTINUED)

Industry	Company	Chief Executive
Paper	International Paper Co. New York, New York	Stanford Smith Vice Chairman
Copper	Kennecott Copper Corp. New York, New York	Frank R. Milliken President
Shipping	Keystone Shipping Co. Philadelphia, Pennsylvania	Adolph B. Kurz President & Chief Executive Officer
Real Estate	Lefrak Inc. Forest Hills, New York	Samuel L. Lefrak President
Cement	Lone Star Industries, Inc. Greenwich, Connecticut	Jack R. Kringel Chairman & President
Hospitality	Marriott Corporation Washington, D.C.	J. Willard Marriott Chairman
Financial	Morgan Guarantee Trust New York, New York	Walter H.Page President
Small Business	Natl. Federation of Indep. Business San Mateo, California	Wilson S. Johnson President
Fiberglass	Owens-Corning Fiberglas Toledo, Ohio	W. W. Boeschenstein President & Chief Executive Officer
Glass Containers	Owens-Illinois, Inc. Toledo, Ohio	Edwin D. Dodd President & Chief Executive Officer
Glass	PPG Industries, Inc. Pittsburgh, Pennsylvania	J. A. Neubauer President
Retail Sales	Sears, Roebuck and Co. Chicago, Illinois	Arthur M. Wood President

Administrative Liaison
Phillip J. Carroll, Director
Energy Conservation Division
Department of Commerce
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CONSUMER COMMITTEE

282

Chairman: Mr. Lee White

Lee White, Chairman on
Energy Task Force for Consumer
Federation of America
Washington, D.C.

John T. Kehoe, Director
Department of Consumer Affairs
Sacramento, California

Peter Pryor, Executive Director
Consumer Protection Board
Albany, New York

Stewart M. Lee
Department of Economics
and Business Administration
Beaver Falls, Pennsylvania

Charles Ross, (former Federal
Federal Power
Commissioner
Hinesburg, Vermont

Bernard E. Nash, Executive Director
National Retired Teachers
Assn. and American Assn. of
Retired Persons
Washington, D.C.

Currin V. Shields, Director
Community Services Division
of Continuing Education
Tucson, Arizona

Colston E. Warne, President
Consumers Union Retired
Professor of Economics
Amherst, Massachusetts

Aldolfo G. Alayon, Exec. Dir.
Consumer Action Program of
Bedford-Stuyvesant
Brooklyn, New York

Douglas R. Carlson, Ass't.
Attorney General
Consumer Protection Div.
Des Moines, Iowa

Charles W. Tapp, Director
Consumer Protection Off.
Baton Rouge, Louisiana

Dean Abrahamson
University of Minnesota
Minneapolis, Minnesota

Joseph C. Swidler, Chairman
Public Service Commission
of the State of New York
Albany, New York

Helen E. Nelson, President
Consumer Federation of
America & Director,
Center for Consumer
Affairs
Milwaukee, Wisconsin

Raymond Heimerl, Dean
School of Business
University of Northern
Colorado
Greeley, Colorado

(more)

CONSUMER COMMITTEE (continued)

Brad Baker (student)
Indiana University
Bloomington, Indiana

Dean Naomi Albanese, Dean
School of Home Economics
of the University of North Carolina
Greensboro, North Carolina

Esther Peterson, Consumer Advisor
Giant Food
Washington, D.C.

William A. MacColl
Group Health Cooperative
Seattle, Washington

Edward R. Willett
Finance Northeastern Univ.
Boston, Massachusetts

Gwen Bymers, Economist and Chairman
Consumer Economics & Pub. Policy
Itaca, New York

Sandra DeMent Sterling
Citizens' Action Group
Washington, D.C.

Hans Thorelli
Graduate School of Business
Bloomington, Indiana

Administrative Liaison
Mr. James Dawson
Division of Public Affairs
Department of HEW
Washington, D.C.

ENVIRONMENTAL COMMITTEE

283

Chairman: Mr. Larry Moss

Larry Moss
Sierra Club
Washington, D.C.

David D. Dominick
Washington, D.C.

Malcolm Baldwin
The Institute of Ecology
Washington, D.C.

Ed Strohbehn
Natural Resources Defense Council
Washington, D.C.

Eldon Greenberg
Center for Law and Social Policy
Washington, D.C.

Paul Ignatius, President
Concern, Inc.
Washington, D.C.

Lois Sharpe
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Washington, D.C.

Charles H. Callison, Exec. V.P.
National Audubon Society
New York, New York

Grant Thompson
Environmental Law Institute
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Douglas M. Costle, Commissioner
Dept. of Environmental Prot.
Hartford, Connecticut

William Reilly, President
Conservation Foundation
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<u>Administrative Liaison</u>
Mr. Jim Oberwetter

Special Assistant to the Administrator
Environmental Protection Agency
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2841

PETROLEUM INDUSTRY COMMITTEES (ALL SEGMENTS)

National Petroleum Council (NPC)

(Note: The NPC has about 130 members from all segments of the oil and gas industries and several active study committees Representation is provided at the President or Chairman of the Board level.)

Chairman	:	H. A. True, Partner True Oil Company Casper, Wyoming
Vice Chairman	:	Robert G. Dunlop Sun Oil Company St. Davids, Pennsylvania
Executive Director	:	Vincent M. Brown National Petroleum Council Washington, D.C.

NPC Committee on Emergency Preparedness

Chairman	:	Carrol M. Bennett Texas Pacific Oil Company, Inc. Dallas, Texas
Vice Chairman	:	M. A. True, Jr. True Oil Company Casper, Wyoming
Ex Offico	:	H. A. True, Jr. True Oil Company Casper, Wyoming
		Robert G. Dunlop Sun Oil Company St. Davids, Pennsylvania

COMMITTEE MEMBERS

H. Bridges, President
Shell Oil Company
Houston, Texas

Richard J. Gonzalez
Houston, Texas

(more)

COMMITTEE MEMBERS (cont'd.)

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Ashland Oil, Inc.
Ashland, Kentucky

B. R. Dorsey, Chairman of the Board
Gulf Oil Corporation
Pittsburgh, Pennsylvania

B. D. Goodrich, Chairman of the Board
Texaco Inc.
Houston, Texas

Maurice F. Granville, Chairman of the Board
Texaco Inc.
New York, New York

Jake L. Hamon
Oil and Gas Producer
Dallas, Texas

John A. Kaneb, President
Northeast Petroleum Industries, Inc.
Chelsea, Massachusetts

W. W. Keeler, Director
Phillips Petroleum Company
Bartlesville, Oklahoma

William A. Lockwood, Senior Vice President
First National City Bank of N.Y.
New York, New York

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McClure Oil Company
Alma, Michigan

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Wilmington, Delaware

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Oklahoma City, Oklahoma

E. Clyde McGraw, Chairman of the Board
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Independent Petroleum Assoc.
Wichita Falls, Texas

O. N. Miller, Chairman of the Board
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San Francisco, California

Robert V. Sellers, Chairman of the Board
Cities Service Company
New York, New York

John E. Swearingen, Chairman of the Board
Standard Oil Co. (Indiana)
Chicago, Illinois

Rawleigh Warner, Jr. Chairman of the Board
Mobil Oil Corporation
New York, New York

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PETROLEUM INDUSTRY COMMITTEES (INDEPENDENTS) 285

Washington Representatives

John Zentay:
Independent Fuel Oil Terminal Operators Association

Robert Nunn
Independent Terminal Operators Association

Gregg Potvin
National Oil Jobbers Council

Spence Perry
Society of Independent Gasoline Marketers of America

L. Dan Jones, Executive Vice President
Independent Petroleum Association of America

Don O'Hara, President
National Petroleum Refiners Association

Gordon Gooch, Attorney
Petrochemical Energy Group

William Bode
Independent Gasoline Marketers Council

Joseph Helyer
Independent Refiners Association of California

James Holstittler, Attorney
New England Council

Arthur Steffan
American Petroleum Refiners Association

Lt. Gen. W. O. Senter, Executive Vice President
Gas Supply Committee

Walter E. Rogers, President
Independent Natural Gas Association of America

(more)

PETROLEUM INDUSTRY COMMITTEES (INDEPENDENTS)

Washington Representatives (cont'd.)

E. Jason Dryer, General Counsel
Independent Refiners Association of America

Arthur C. Kruetzer, Executive Vice President & General Counsel
National L.P. Gas Association

Cliff Harvison, Managing Director
Truck Carriers, Inc.

John Prokop, Attorney
American Waterways Operators, Inc.

Charles Binsted, President
National Congress of Petroleum Retailers

Ronald E. Cannon, Executive Director
Natural Gas Processors Association
(Tulsa, Oklahoma)

Wayne Gibben, President
Maryland Continental Oil and Gas Corporation

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256

PETROLEUM INDUSTRY COMMITTEES (INDEPENDENTS)

Northeast Group

Chairman: Mr. John A. Kaneb

John A. Kaneb, President
Northeast Petroleum Industries
Chelsea, Massachusetts

Arthur T. Soule, President
Petchogue Oil Terminal Corp.
New York, New York

William F. Kenney, President
Meenan Oil Co., Inc.
New York, New York

Dudley F. Blanchard
Wyatt, Inc.
New Haven, Connecticut

Herbert Sostek, Exec. Vice President
Gibbs Oil Company
Revere, Massachusetts

Robert DeBlois, President
DeBlois Oil Company
Pautucket, Rhode Island

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Public Fuel Service
New York, New York

Don Craft
Wyatt, Inc.
New Haven, Connecticut

Francis B. Bushey, President
Spentenbush Transport Service, Inc.
New York, New York

John Marquis, Vice President
Irving Oil Company
Bangor, Maine

Charles Burkhardt, Exec. Vice President
New England Fuel Institute
Boston, Massachusetts

Robert Fawcett, Sr.
Robert Fawcett & Son Co.
Cambridge, Massachusetts

John Wade
Fairlie and Wilson Fuel Co.
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PETROLEUM INDUSTRY COMMITTEE (INDEPENDENTS)

East Coast (Petroleum Administration District I)

Chairman: Mr. Warren Albert

Warren Albert, President
Warren Equities
New York, New York

Norman A. McGee, President
Southland Oil Co.
Savannah, Georgia

Harry A. Logan, President
United Refining Co.
Warren, Pennsylvania

Max Lewis, President
Seminole Asphalt Refining Co.
St. Marks, Florida

Paul Gallion, Vice President
Commonwealth Oil & Refining
(Puerto Rico)
New York, New York

John Barringer, President
Piedmont Terminals
Charlotte, North Carolina

John C. Wright, President
The Wiser Oil Company
Sistersville, West Virginia

Morton Sand, President
The Meadville Corporation
Philadelphia, Pennsylvania

Herbert G. Lonas, President
East Coast Oil Corporation
Richmond, Virginia

Don Holtzman, President
Holtzman Petroleum Co.
Emmaus, Pennsylvania

J. William Adams, III
American Oil Company
Macon, Georgia

Richard Weinand, President
New England Petroleum Co.
New York, New York

John H. Nichols, Jr., Exec. Vice President
Suburban Propane Gas. Corp
Whippany, New Jersey

James B. Barrick
Consolidated Gas Supply Corp.
Clarksburg, West Virginia

S. F. Niness, Chairman of of the Board
Chemical Lehman Tank Line Inc.
Downingtown, Pennsylvania

H. J. Taufen, Vice President
Hercules, Inc.
Wilmington, Delaware

Harold G. Williams, President
Gulf-Atlantic Transport. Corp.
Jacksonville, Florida

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PETROLEUM INDUSTRY COMMITTEES (INDEPENDENTS)

287

Midwest (Petroleum Administration District II)

Chairman: Mr. Miles Cowden

Miles Cowden, President
Farmland Industries
Kansas City, Missouri

Elmer Winkler, President
Rock Island Refg. Co.
Indianapolis, Indiana

George H. Pnuska, President
Tressler Oil Co.
Cincinnati, Ohio

Myer Kopolow, President
Marine Petroleum Co.
St. Louis, Missouri

Ron Peterson, President
Martin Oil Company
Blue Island, Illinois

David Rooke, Vice President
Dow Chemical
Midland, Michigan

C. John Miller, President
Miller Bros. Oil Co.
Allegan, Michigan

F. Allen Calvert, Jr.,
Chairman of Board
Calvert Exploration Co.
Tulsa, Oklahoma

R. H. Deer, Exec. Vice Pres.
Bonded Oil Company
Springfield, Ohio

Frederick Lichtman, Pres.
Tulsa Oil Corporation
Detroit, Michigan

Maurice B. Holdgraf
Hudson Oil Company, Inc.
Kansas City, Kansas

Jack Pester
Pester-Schaefer Oil Co.
Des Moines, Iowa

Tom Love
Musket Oil Company
Oklahoma City, Oklahoma

Thomas H. Quail
Flamegas Wisconsin Corp.
Milwaukee, Wisconsin

Robert E. Thomas
Mapco Inc.
Tulsa, Oklahoma

Gale H. Chapman, Senior Vice
President
Upper Miss. Towing Corp.
Minneapolis, Minnesota

Charles Cranmer, President
Liquid Transportation, Inc.
Louisville, Kentucky

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Texas: South (Petroleum Administration District III)

Chairman: Mr. Ken Catmull

Ken Catmul, Vice President
Autotronic Systems, Inc.
Houston, Texas

Tommy Munro
Munro Petroleum & Terminal Corp.
Biloxi, Mississippi

Nelson Rusche
A. N. Rusche Distributing Co.
Houston, Texas

Lewis Graeber, Jr.
Graeber Bros., Inc.
Marks, Mississippi

Ben Collins
Placid Oil Company
Dallas, Texas

E. O. Gaylord, President
Robertson Distribution, Inc.
Houston, Texas

Carl Vaught, President
Alabama Refining Company
Mobile, Alabama

S. S. Seltzer
Southwestern Refining Co.
Corpus Christi, Texas

H. H. Imray, Vice President
Texas Eastman
Longview, Texas

Tom B. Medders, Jr., Pres.
Medders Petroleum Corp.
Wichita Falls, Texas

A. V. Jones, President
A. V. Jones & Sons
Albany, Texas

William H. Krause, President
Billups Western Petroleum Co.
Hammond, Louisiana

John E. Barbre, President
Consumers Service Station
Tulsa, Oklahoma

Jesse C. Brent, President
Brent Towing Company, Inc.
Greenville, Mississippi

George P. Mitchell, President
Texas Independent Producers
and Royalty Owners Association
Austin, Texas

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288

STATE LEGISLATURES COMMITTEE

(Note: This committee is comprised of an existing Special Task Force on Energy, established by the National Legislative Conference.)

Chairman: Mr. Charles Warren

Assemblyman Charles Warren, Chairman-
Subcommittee on Energy Policy
Sacramento, California

Repr. Robert B. Ambler, House Chairman
Joint Committee on Government Regulation
Boston, Massachusetts

Senator A. C. Bartulis, Vice Chairman
Agriculture, Conservation, and Ecology Committee
Benld, Illinois

Repr. Donald J. Blandford, Chairman
Agriculture & Natural Resources Committee
Chairman-Subcommittee on Natural Gas & the Energy Crisis
Philpot, Kentucky

Senator Chancy Croft, Chairman
Pipeline Impact Committee
Anchorage, Alaska

Repr. Thomas L. duPont, Chairman
Natural Resource Committee
Wilmington, Delaware

Speaker Richard Eymann
Governor's Energy Advisory Council
Salem, Oregon

Repr. William Fitzgerald
Select Joint Committee to Investigate the Energy Crisis
Lansing, Michigan

Senator Fred A. Gross, Jr.
Land Use Advisory Council
Albuquerque, New Mexico

Repr. William N. Kelly
Chairman-Subcommittee on Energy
East Grand Forks, Minnesota

Senator Walter B. Langley
Chairman-Energy Policy Commission
Albany, New York

Repr. Claude Leach
Chairman-Legislative Council
Leesville, Louisiana

Repr. K. H. MacKay, Jr.
Co-Chairman-Joint Committee on Energy Policy
Ocala, Florida

Senator George F. Milligan
Chairman-Iowa Legislative Energy Crisis Study Committee

(more)

STATE LEGISLATURES COMMITTEE (cont'd.)

Repr. Jon P. Newton
Chairman-House Energy Crisis
Committee
Beeville, Texas

Repr. J. Stanley Rogers
House Study Committee on Energy
Manchester, Tennessee

Repr. Hubert M. Safran
Land Use Interim Committee
Denver, Colorado

Repr. Harout O. Sanasarian
Chairman-Assembly Commerce and
Consumer Affairs Committee

Repr. Thomas J. Anderson
Chairman-Science & Technology
Committee
Lansing, Michigan

Senator Hughes Brockbank
Chairman-Commerce and Trans-
portation Task Force, IRC
Salt Lake City, Utah

Speaker James E. O'Neil, Sr.
Chairman-Natural Resources Task
Force, IRS
Concord, New Hampshire

Delegate Steven Sklar
Maryland House of Delegate
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<u>Executive Director</u>
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NEWS

289

FOR IMMEDIATE RELEASE December 19, 1973

Note to Correspondents:

Attached is the Treasury Department's explanation of the Emergency Windfall Profits Tax, which President Nixon announced today he would recommend to the Congress when it reconvenes in January.

The explanation includes two appendices which describe two possible uses for the tax revenues which the Congress may wish to consider. These are an Energy Development Trust Fund and a "plowback" system.

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290

December 19, 1973

Proposal for an Emergency Windfall Profits Tax

We recommend that the Congress enact an Emergency Windfall Profits Tax, applied at graduated rates and designed to recapture the windfall profits that would otherwise be realized over the next year or so by the producers of oil. The tax is described in detail below.

Background.

A scarcity of crude oil, abruptly worsened by the embargo of the Arab oil producing nations, has driven up dramatically the price of crude petroleum in the free world market.

Crude oil prices in the near future will exceed what is required to bring forth the production which will eventually satisfy demand. The proposed Emergency Windfall Profits Tax would apply to that excess.

In the long run, if the demand for oil is going to be larger and we must therefore turn to higher cost sources, prices must rise some reasonable amount above present levels. If the United States is to become self-sufficient, we must learn to live within our own resources. Nothing we can do will increase the amount of oil in the ground in the United States, but there is much that we can do to expand U.S. production. There is much oil in the ground which we have located and drilled for, but which we make no attempt to get up because the cost of getting it up is not justified by the price it will bring. It is estimated that primary recovery--obtaining the oil by natural flow or by pumping from a given pool--yields something like one-third of the oil in a pool. Making the remainder available requires much more expensive processes, and will not occur to the extent needed until prices make those processes economically feasible. Similarly, the oil potentially recoverable from shale in the United States would supply all of our needs for many years, but current price levels do not cover the cost of solving the technological problems of recovering it nor of making the large investments in plants and equipment which would be required to obtain substantial volume from that source.

The immediate problem is how to permit price incentives to operate within a range which is reasonable, without permitting oil producers to retain what is unreasonable.

241

The Windfall Element.

It will take time to increase substantially the supply of crude in the United States. New reservoirs must be discovered and drilled. Old wells previously uneconomical must be rehabilitated. Processes such as secondary recovery must be put in place. Processes such as shale oil recovery will commence to come on line only over a period of years as producers conclude that they can count on price levels which make that recovery economic, and then there will be time lags in solving technical problems and building plants.

We believe that supply and demand will come into normal balance --if permitted to operate in normal fashion--over a period of several years. Even moderate price increases will contribute significantly to eliminating shortages. Moderate price increases will bring in more production, thus increasing supply. At the same time, those price increases will cause people to be a little more thrifty. It will cost more to do that extra, unnecessary driving, and it will save more to insulate homes and install storm windows.

However, in the period before that adjustment is completed, the abrupt nature and magnitude of the current shortage could, in a free market, cause the price of crude oil to shoot substantially above the levels required to bring supply and demand into balance over a two to three year period. This produces a "windfall"--a price to producers which is more than producers could have anticipated when investments were made and more than that required to produce all that we can in fact expect to be supplied.

For example, suppose that a price of $7 a barrel for crude oil would be sufficient after two or three years to induce increased supplies and to dampen demand, so that shortages would disappear. Such a price would be "the long-term supply price." If in the interim, the price goes to $8 or $9 a barrel, the excess of the $8 or $9 price over the long-term supply price is a "windfall"--it is more than the price required to produce all that is in fact being supplied or is likely to be supplied in the next several years. The windfall and the tax would, of course, be even greater if prices should, on a temporary spot basis, shoot to the range of the $17 prices paid in some recent foreign auctions.

No one knows exactly what the long-term supply price is, as no one can predict the future that clearly. Our best estimate is that it would be in the neighborhood of $7 per barrel within the next few years. In terms of gasoline prices, such a figure represents an increase from present levels of less than 10 cents a gallon. (A convenient rule of thumb is that each dollar of increase in the price of crude oil increases gasoline prices by 2-1/2 cents per gallon.)

292

Likewise, no one knows what level the price of crude would reach in the next few months if it were freed from all controls. If prices were freed, we could expect erratic behavior for several weeks, after which the price might settle in the $8 to $9 range, and that thereafter the price would decline gradually to the lower long-term supply price.*

Some windfall profits have been made during the past few months and have contributed to the sharply increased over-all reported profits of oil producers. Those windfall profits can be expected to increase further in the next few months as prices move up.

Emergency Windfall Profits Tax.

The nation is faced with a problem which can be solved only if everyone contributes to the solution.

In the face of large and imminent windfall profits, we therefore propose an Emergency Windfall Profits Tax on the producers of oil.

In designing the tax, we have tried:

(1) To design the tax not only to capture future windfalls, but also to make up in some degree for windfalls which have occurred in the past.

(2) To avoid a heavy tax on that part of the return to producers which is necessary to obtain increased production. It would be self-defeating to take away the profit which is needed to increase production and thus to eliminate shortages.

*Under our present two tier system of price control, more than 80 percent of our domestic supply ("old oil") is controlled at a price level far below the market, and the remainder ("new oil") is not controlled at all. This means that normal market pressures are concentrated on less than 20 percent of the total production. Thus, in the event supply restrictions by exporting countries were to force oil prices to an $8 or $9 average price, the price of "new oil" might well go to $20 or more per barrel. This high price of "new oil," averaged with the controlled prices of "old oil" would yield an average price of $8 - $9. As the proportion of "new oil" in the total increased, its price would decline. Thus, if all oil were uncontrolled, the average price of $8 - $9 would prevail for all.

293

(3) To phase out the windfall tax as the windfall disappears, and to place a definite time limit on the duration of the tax. Windfalls are by their nature temporary for the reasons cited. A normal free market will eliminate windfalls, given time. Unless the tax is permitted to phase out as the windfall disappears, it would continue to tax those profits which are necessary to induce greater supplies. The tax would then not reduce the return to producers; it would serve only to keep prices to consumers higher than otherwise would prevail.

Description of Emergency Windfall Profits Tax.

1. Summary of Tax

An "Emergency Windfall Profits" tax at graduated rates will be imposed on the sale of a barrel of crude petroleum at a price in excess of a specified base price per barrel. The tax will apply only to the excess over the base price and will be imposed on and collected from the producer of crude.

2. General Explanation

A. Base Price: Excess Taxable.

Each producer's base price will be the ceiling price on December 1, 1973, under regulations §150.353 of the Cost of Living Council for domestic crude petroleum of that grade and location. That ceiling price is the posted field price on May 15, 1973, plus 35 cents. With the exception of crude petroleum produced abroad, these base prices and the tax, will apply to all crude sold after the date of enactment whether or not it was subject to the ceiling price (including "new crude petroleum" within the meaning of §150.354 of those regulations). In the case of new fields or production for which no ceiling price was applicable or determined on December 1, 1973, the base price will be determined by reference to ceiling prices on that date for crude of comparable grade and location.

The application of the tax to the excess of the selling price over the producer's base price per barrel is illustrated by the following example which reflects the base price of a hypothetical taxpayer and a hypothetical increase in that price:

(1) Actual Selling Price	(2) Taxpayer's Base Price (CLC Ceiling Price)	(3) Taxable Amount
\$5.00 per/bbl.	\$4.00 per/bbl.	\$1.00 per/bbl.

On these facts, the tax would be computed as follows:

Column 1 (\$5) - Column 2 (\$4) = Column 3 (\$1) x Rate

294

Where there is no sale of crude, as in the case of an integrated producer, a comparable result will be achieved by applying the tax to the excess of the value at the field over the base price. This value will be determined by reference to comparable field selling prices and is the value used by the producer for the purpose of calculating his percentage depletion deduction under the Federal income tax.

The producer will also pay Federal income tax on the balance of the selling price after he deducts the Windfall Profits Tax and his other expenses.

B. Rate of Tax.

The rates of tax applicable to the excess selling price will range from 10% to 85%, under the following graduated rate schedule:

Amount Taxable ($)	Bracket Rate (%)	Bracket Tax ($)	Cumulative Tax ($)
0 -- .50	0	0	0
.51 -- .75	10	2-1/2¢	2-1/2¢
.76 -- 1.10	20	7¢	9-1/2¢
1.11 -- 1.70	30	18¢	27-1/2¢
1.71 -- 2.50	50	40¢	67-1/2¢
2.51 -- over	85		

In accordance with regulations prescribed by the Secretary of the Treasury, the top level of the lowest bracket (initially 0 to $0.50) will be automatically adjusted upward in the uniform percentage required to make the 10 percent rate of tax applicable after 36 months only to amounts in excess of the expected average long-run supply price of about $7 per barrel. Each higher bracket will be adjusted upward to apply to a constant number of cents per barrel in price above the next lower bracket.

The use of graduated rates of tax in combination with a scheduled upward adjustment of the brackets accomplishes three major purposes of the tax as part of the solution to the current energy situation.

-- First, the graduated rates impose very high rates of tax on extraordinary price increases and "windfall" profits which are attributable more to an externally induced shortage in crude supplies than to long-run market conditions, but impose a lesser amount of tax on relatively small increases above the artificially low ceiling price of May 15, 1973.

--Second, the automatic upward adjustment of the tax brackets recognizes both the temporary nature of current shortage and the expected gradual increase in crude petroleum price over time due to ordinary rates of inflation and the anticipated long-run increase in demand. Most importantly, the adjustment of the brackets, and the phase-out of the tax that it implies, permits the market to eliminate the shortage by calling forth an increase in supply as rapidly as possible consistent with not permitting the accumulation of "windfall" profits in the short run.

-- Third, as supplies are increased in response to higher after-tax profits, the concurrent disappearance of the tax will permit consumer prices of petroleum to be no more, nor less, than the costs of bringing forth a steady supply of oil. If the tax were not phased out as after-tax prices received by producers return to long-run supply levels, the tax would cause prices to consumers to be higher than they otherwise would be.

C. Collection and Imposition.

It is contemplated that the tax will be collected and remitted as follows:

The tax will be imposed on the producer at the time of sale of the crude or at the end of the month in which produced if not sold. It is contemplated that the tax will be collected and remitted on a monthly basis as follows:

(i) The purchaser will collect the tax from the producer by withholding the tax from the sales price and will remit by the 15th day following the end of each month the tax due on all crude petroleum purchased during the preceding month.

(ii) In the case of crude produced but not sold, as in the case of an integrated producer, the tax will be paid by the producer by the 15th day following the end of the month.

Sales of crude petroleum are with few exceptions made to refineries. Since there are fewer than 200 refineries, as compared to many thousands of producers and royalty owners, collection of the tax in this manner will facilitate compliance and administration.

D. Computation of Percentage Depletion.

For purposes of computing percentage depletion under §613 of the Code, gross income from oil and gas wells will be reduced by the amount of the applicable Windfall Profits Tax.

E. Duration of the Tax.

Because the period of extraordinary profits is expected to be limited in duration, it is important that Congress reconsider the tax after several years of experience. In order to facilitate that recommendation, the tax will by its terms expire 60 months after the date of enactment unless otherwise extended.

Appendix A

Energy Development Trust Fund

All or part of the receipts from the Emergency Windfall Profits Tax could be allocated to an Energy Development Trust Fund to be administered by the Secretary of the Treasury. The Trust Fund would provide capital for the Energy Development Bank which would provide loans for the development and conservation of domestic energy sources with the goal of soon becoming independent of foreign supplies. In effect, the purpose of the Trust Fund would be to accelerate the rate of technological change in the energy section of the economy.

The Energy Development Bank would assist in financing projects for the development of energy supplies which cannot be undertaken as private commercial projects because of large capital requirements, uncertainties of commercial success, etc.

The Bank's Board of Directors would consist of five persons appointed by the President with the advice and consent of the Congress. Directors would serve full time for terms of five years (staggered). Board members would be selected on the basis of demonstrated ability in banking and finance, science, and energy production and management. The Federal Energy Administrator would be Chairman of the Board, *ex officio*.

An Advisory Board of nine persons, including representatives of labor, consumer and educational interests, and of other government agencies, would be constituted to review progress and performance of the Bank at predetermined intervals. Advisory Board members would be appointed by the President and serve for terms of three years (staggered).

The authority of the Bank would include:

- Direct loans to finance novel or long-range projects for the development of increased domestic energy supplies.

- Direct loans to finance projects for the conservation and protection of the environment in the production of increased domestic energy supplies.

298

- Price guarantees for energy supplies produced by supported projects.

- Reinsurance of risks from environmental hazards created by supported projects.

The Bank would have complete discretion as to the terms of the credits extended and should not be expected to produce current profits or avoid losses. However, it should be sufficiently staffed to allow it to discriminate intelligently in favor of those projects which have the greatest merit.

2981

Appendix B

"Plowback"

If an Emergency Windfall Profits Tax is enacted, Congress may wish to consider the desirability of refunding or otherwise forgiving all or a part of the tax if the taxpayer "plows back" his profit into some energy producing investment.

A number of Congressmen and writers on economic subjects have discussed a plowback concept. Bills introduced by Senator Gravel and by Senator McGovern and Representative Aspin contain such provisions.

In assessing such a proposal, Congress would wish to consider the following aspects.

Mechanics: refund, credit or deduction.

Two mechanics to implement a plowback have been suggested: (i) a deduction against the tax base (the amount of windfall profit) for qualifying expenditures and (ii) a refund or credit of the windfall tax equal to qualifying expenditures. The basic considerations and problems are common to each approach. The tax refund or credit approach would be the appropriate mechanism to use in conjunction with the proposed Emergency Windfall Profits Tax, since, for simplicity of administration, the tax will be collected by the first purchaser of the crude oil who will not have information on qualifying expenditures made by the oil producer.

A system for a tax refund or credit based upon qualifying expenditures would require a definition of qualifying expenditures and a fast, simple procedure for obtaining a refund or credit, in order that the refund or credit might supply the cash for the investments desired.

A relatively fast and simple procedure for obtaining a refund or credit would be for the producer to file a refund claim (for any period not shorter than one month) consisting of a statement of qualifying expenditures made during that period together with copies of receipts from the purchasers of the oil for the taxes paid during that period.

Definition of qualifying expenditures.

Defining qualifying expenditures requires decisions as to the types and amounts of expenditures to be encouraged. Most proposals to

2-99

date would cover not only expenditures for additional oil discovery and production, but research and development of alternate energy sources as well. It is doubtful whether in the next three to five years (when shortages are likely to be more critical) new energy sources other than oil could become available in significant amounts at competitive prices. Accordingly, it might be appropriate to vary the amount of incentive among different types of expenditures to give more incentive to those which produce more immediately useable energy supplies. Arguably, the credit for qualifying expenditures should be confined to those expenditures in excess of existing levels if the credit is to provide maximum incentive for additional expenditures. It would be necessary, in such a case, to choose some historical base level of expenditures and give a credit only for the excess amounts. Inequities for some taxpayers would occur in the selection of a historical base and new producers would have an advantage in that they have no base.

Carryovers and carrybacks.

A carryover and carryback of expenditures for some relatively short period, such as one year, would even out monthly fluctuations in qualifying expenditures. A long carryover or carryback period would be inadvisable because it would provide less incentive for immediate expenditure increases which would produce more immediate supplies.

Procedural complexity.

The principal complexities in the refund mechanism will occur where the oil is sold by the operator on behalf of many fractional interest holders. Each interest holder will have to be furnished a receipt by the operator for his share of the tax paid. However, since the operator currently provides on a monthly basis information of the same basic type and remits sales proceeds monthly, no insurmountable problems are foreseen.

Effect on producer profits.

A plowback system will, of course, return windfall profits to producers, since the tax refund will have the effect of increasing income and the qualifying expenditures will largely be capitalized rather than deducted currently.

3d

Incentive effects.

An increase in the price of crude oil might itself provide sufficient incentive to develop all of the energy supplies that could reasonably be required or expected in the next several years. In that case, the tax refund would not provide the desired incentive. In addition, the effect of the plowback is to give a preference to energy investments made by oil producers over energy investments made by others. It is probably true, on the other hand, that the expenditures most effective in the short term to increase energy supplies will be those for exploration and development of oil supplies, so that this preference may not be of great concern.

FOR IMMEDIATE RELEASE DECEMBER 19, 1973

301

Office of the White House Press Secretary

THE WHITE HOUSE

STATEMENT BY THE PRESIDENT

One of the central facts underlying the national energy crisis is that we have a shortage in the production of domestic crude oil. This shortage has been further aggravated by the embargo of oil by the Arab nations. It is one of the ironies in the present situation, as well as one of the sources of confidence that we can solve the energy shortage, that the United States is an energy-rich nation. In addition to our superabundance of coal, oil shale, natural gas, and other resources, both natural and technological, we also possess extensive supplies of oil. In the past we have drawn on proven supplies in the most economical manner and this practice, coupled with heretofore cheap imports, has provided us with sufficient petroleum and, more importantly, petroleum at very low prices.

It has not previously been commercially feasible to develop our oil shale resources, or to extract all of the crude oil which exists in developed fields and in unproven reserves. Now we must become self-sufficient in energy, and in order to do so we must be prepared to pay the attendant costs.

In order to increase our production of crude petroleum, new reservoirs must be discovered and drilled, often to deeper and more costly depths. Expensive new technology must be applied to existing wells to bring up more of the 60 percent of the crude oil which present drilling processes leave in the ground. Very large expenditures are also needed to produce oil from oil shale, a resource which alone could supply our needs for years to come.

Today, prices of crude oil in the world market are rising and it is inevitable that they will come to rest at levels higher than we historically have enjoyed. Nevertheless, after a short-run adjustment period, the long-run price required to supply our needs should not be unreasonably high.

In the meantime, because of the abrupt nature of the present shortage, prices could temporarily exceed the price levels required to increase supply, and oil producers could reap unanticipated "windfall" profits.

Emergency Windfall Profits Tax

I want to assure all Americans that there will be no windfall profits at their expense. When the Congress reconvenes in January, I will ask it to enact an Emergency Windfall Profits Tax. The specific details of this proposal will be provided today by the Treasury Department. Over the holidays, the Treasury Department will continue to work with Congressional staffs so that this proposal and related materials will be ready for consideration by the Congress after the holiday recess.

The Emergency Windfall Profits Tax I will propose would apply at rates graduated up to 85 percent on the sale by any domestic producer of crude oil at prices higher than the ceiling price of the Cost of Living Council on December first.

(MORE)

302

This special emergency tax will prevent future windfalls to producers and will make up, in some degree, for those which may have already occurred.

At the same time, the tax is carefully designed to avoid completely depriving producers of a legitimate return on the major investments they will have to make in order to produce the additional supply we need. It would be self-defeating to tax away the oil producers' incentive and ability to help meet our energy shortage.

The Emergency Windfall Profits Tax must be a temporary tax. This is an essential part of my recommendation to the Congress. The tax is intended only to serve the immediate objective of preventing windfall profits to oil producers while other economic factors are at work to increase supply and eliminate the shortage in crude oil. As prices return to the long-run supply level and as the potential for windfall profits disappears, a continuation of the tax would result in higher prices for consumers, with no concomitant increase in oil supplies.

I am not today making any recommendation to the Congress for using revenues derived from the Emergency Windfall Profits Tax. That will naturally be a part of the Congress' deliberations. There are a number of possibilities for use of these revenues. One would be to place those revenues in an Energy Development Trust Fund which would act as a bank for the financing of a wide range of energy development and conservation projects which might not otherwise be feasible. Another possibility would be to refund all or part of the tax to the oil producer if he invests his profits in additional energy producing efforts.

These and all othe possibilities for increasing our energy production at a faster pace, as well as for minimizing any inequities resulting from the present shortage, are being given the most careful study. The steps which I am announcing today are not the entire answer to our energy needs, but they will contribute significantly to the overall solution.

We must be more creative in conserving our vital natural resources, and we must do more to develop those resources. As we take these steps, every American must be assured that others will not profit at his expense. My recommendation to the Congress for an Emergency Windfall Profits Tax is designed to give that assurance.

# # #

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307

FOR IMMEDIATE RELEASE DECEMBER 20, 1973

ADMINISTRATOR SIMON WARNS UTILITIES

William E. Simon, Administrator of the newly formed Federal Energy Office (FEO), upset by a utility's ad promoting "plenty of electricity," warned the Nation's largest utilities that they will be short of residual fuel oil soon if new ways aren't found to conserve energy.

Simon called the 22 largest utilities to Washington yesterday for an exchange of ideas to lessen energy usage for the winter months. He immediately mentioned the newspaper ad, without naming names, and told the utilities, "Our conservation program must have the cooperation of everyone. This sort of thing doesn't help me do my job, and it certainly won't encourage public support of our conservation measures."

The utility executives agreed with Simon on the need to find new ways of producing energy and cut back on individual use, but were generally opposed to a suggested surtax on utility bills.

John Hill, FEO Assistant Administrator for Policy Planning and Regulation, told the group the country would be short about 860,000 barrels of residual oil per day during the first quarter of 1974.

Hill asked the utilities to help lower the use of lighting in industry, business, and homes as requested by Administrator Simon last week. It is estimated that these lower lighting

E-73-27

levels could save the equivalent of about 300,000 barrels of fuel per day.

Hill also pointed out that additional utility plants were being identified for possible conversion from oil to coal. The utility company executives indicated that they would pursue this and other measures, but stressed that these changes would cost more money and might increase utility rates.

The utilities said they would cooperate on pooling their fuel resources. At the same time, they asked for help to allow higher rates; to change legislation imposing unreasonable regulations on strip and deep well mining of coal; to speed up nuclear plant licensing; and to encourage research into new fuel sources through tax incentives.

Two of the utility companies indicated that six percent of the estimated use during the past few weeks has been cut by voluntary conservation efforts that they have advocated. The other utilities pledged similar efforts to reduce consumption would receive top priority.

-FEO-

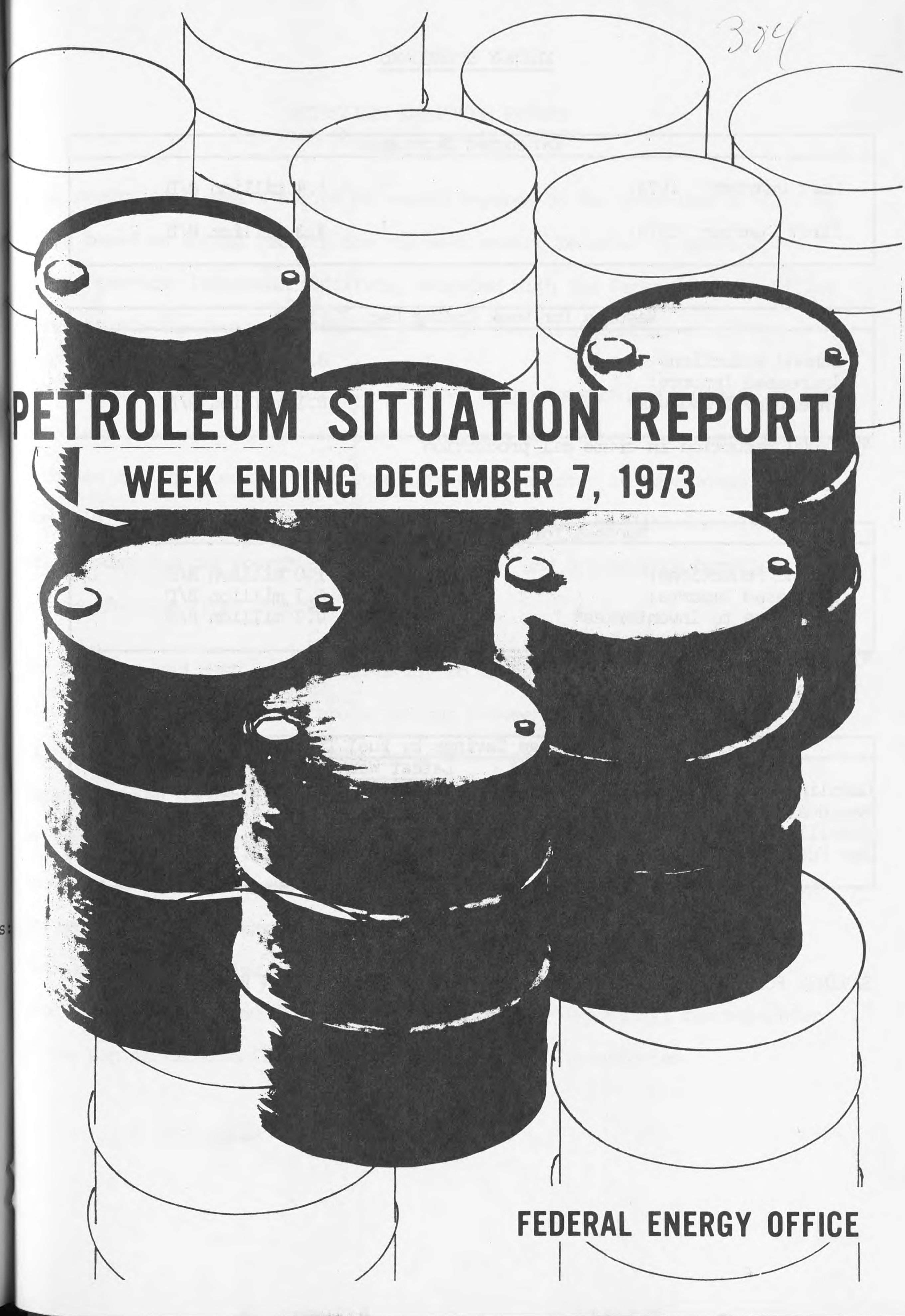
Temporary telephone numbers of Federal Energy Office public affairs:

General Information	395-3537
Press Interviews	395-3497
Allocation Program	395-4672
Energy Conservation	343-8634

384

PETROLEUM SITUATION REPORT

WEEK ENDING DECEMBER 7, 1973



FEDERAL ENERGY OFFICE

ENERGY SCORECARD

Estimated Shortages	
Last Quarter 1973:	1.4 million B/D
First Quarter 1974:	3.3 million B/D

Results for Week Ending Dec. 7, 1973	
Demand Reductions	0.7 million B/D
Increased Imports:	0.7 million B/D
Inventory Drawdowns*	0.1 million B/D

*100,000 reduction in crude oil production

Success for 4 Weeks Ending Dec. 7	
Demand Reductions:	1.0 million B/D
Increased Imports:	0.7 million B/D
Additions to Inventories*	0.2 million B/D

*100,000 reduction in crude oil production

Percentage Savings by Fuel Type	Latest Week	4 Week Total
Gasoline	1.2%	4.9%
Residual Fuel Oil	1.3	5.2
Distillate Fuel Oil	14.2	5.3
Jet Fuel	17.6	26.3

SAVINGS FOR FOUR WEEKS IS 1.0 MILLION B/D OR 27.7 MILLION BARRELS

305

PETROLEUM SITUATION REPORT
Week Ending December 7, 1973

This report continues a series of weekly reports on the petroleum situation. It is based on actual results for the week ending December 7, as reported by the American Petroleum Institute, compared with the Federal Energy Office forecast for the fourth quarter of 1973 and the first quarter of 1974.

The forecast appears in Table 1. It shows a gap between the quantity of petroleum products that the Nation's consumers were expected to want to purchase and the quantity that suppliers were expected to have available for sale. This gap was forecast as an average of 1.4 million barrels of oil per day for the fourth quarter as a whole, and 3.3 million barrels per day for the first quarter.

The simplest and most comprehensive way to assess the current petroleum situation is to see how the projected gap between demand and supply is closed. Part of it may be closed by actual imports in excess of forecast imports, which occurs if the oil supply interruptions are not as effective as they were forecast to be. Another part may be closed through increases in domestic production above the forecast level. Still another part of the gap may be closed by the Nation's consumers purchasing smaller quantities than was forecast. And, finally, to the extent that consumers buy more petroleum products than the Nation is producing or importing, the remainder of the gap is necessarily filled by a reduction of inventories.

The first two charts indicate how the gap between projected demand and projected supply was closed in the week ending December 7 and in the four weeks since November 10. The first bar on each chart shows the problem: the gap of 1.4 million barrels of oil per day, as originally forecast, augmented by a failure of domestic production of crude oil to reach even the forecast level. The second and third bars in each of these charts show the effects of actions and events in closing the gap. For the current week, as shown on Chart 1, half the originally forecast gap was closed by a reduction of demand below the forecast level, and half was closed by imports in excess of the forecast level. However, the additional problem of domestic production remaining below the forecast required that inventories be drawn down by 0.1 million barrels per day faster than was forecast. For the four weeks since November 10, as shown on Chart 2, the combination of demand reductions and imports above the forecast exceeded the total size of the gap, and the result was an accumulation of inventories at a rate exceeding the forecast inventory change. This difference is shown in the third bar of the chart.

Imports

The imports situation, illustrated on the third chart, shows actual imports of petroleum products week by week through December 7, and two projections through the end of the fourth quarter. The projection marked "original forecast" shows the path imports would have had to follow to reach the originally forecast average level of 5.6 million barrels per day for the

306

fourth quarter. A revised outlook, based on actual data through November 30, was included in last week's situation report. This outlook, also shown on the chart, indicates a delay of about two weeks in the impact of the interruptions.

Imports for the week ending December 7 are up noticeably from last week. This indicates that even the revised outlook, which had imports declining to a base level in mid-December, was pessimistic.

The demand situation

Demand for the four major petroleum products was 5.8 percent below forecast for the week ending December 7, and 6.8 percent below forecast for the four-week period since November 10, as shown on the fourth chart. The demand for gasoline was only 1.2 percent below the forecast, up from 15.1 percent below forecast for the preceding week. This rise indicates that the sharp decline during the week of November 30 may have been partly erratic; but even if that one sharp decline is averaged with the three other weeks since November 10, as shown in the lower part of the chart, gasoline demand is 4.9 percent below the forecast level.

The largest difference between actual and forecast demand remains in jet fuel, where demand has been running more than 25 percent below forecast for the four-week period. The principal reason is that the Defense Department request under the Defense Production Act, estimated to account for about 15 percent of the total demand for jet fuel, was not yet being filled.

The demand for distillate fuel oils dropped sharply during the current week, to a level 14.2 percent below the forecast. This demand reduction can be attributed only in part to the continued warm weather during the current week (see Chart 5), because the preceding week--when demand was near the forecast level--was even warmer. The likely situation, confirmed by a few scattered reports from dealers, is that the unexpectedly high demand experienced during the preceding weeks of warm weather was going toward increases in secondary stocks rather than actual consumption; and with these stocks now near peak levels, the reduced rate of consumption is now reflected in the demand data for the primary supply system.

Demand for residual fuel oil continued at a level slightly below the forecast. Some of the electric utilities in the Northeast, which account for the largest single part of this demand, report a reduction in the demand for electric energy. This reduction is reportedly a result of energy conservation activities, and it leads directly to a saving of residual fuel oil.

Inventories

As a result of the continued high level of imports and the demand reductions, inventories during the current week were drawn down only slightly faster than forecast. Gasoline inventories were drawn down substantially, but they remain at a level more than adequate for efficient operation of the distribution system. However, the winter season is generally the time

387

when stocks are built up for the spring and summer drawdown. This build-up has not been occurring. Stocks of other products are moving in line with forecast trends, or they are above forecast levels.

Outlook for the first quarter of 1974

The outlook for the first quarter of 1974, which is unchanged from last week, is shown in Table 2. This table shows the forecast gap between demand and supply for the major petroleum products, and also the steps taken or proposed to close these gaps. For each product, the basic forecast of the gross shortage is shown first, expressed both in thousands of barrels per day and as a percentage of the quantities consumers would want to purchase in the absence of supply restrictions. The next two columns show the actions taken or announced by the President, and the fuel savings estimated to result from these actions. Further management of the shortage has been proposed through a change in the mix of petroleum products produced by the Nation's refineries, and this strategy is shown in the sixth column. These shifts will not increase the total availability of petroleum products, but they will shift the shortages to products where they are more easily managed. The seventh column shows the estimated net shortage remaining after all these actions have been taken. The eighth column shows further actions that may be taken to deal with the remaining shortages, or with other problems as they arise.

Table 1

U.S. SUPPLY AND DEMAND FOR PETROLEUM PRODUCTS
FOURTH QUARTER 1973 AND FIRST QUARTER 1974
(Thousands of barrels per day)

	Fourth Quarter 1973			First Quarter 1974[a]		
	Base Level	Impact of Restrictions	Current Forecast	Base Level	Impact of Restrictions	Current Forecast
DEMAND	18,617	212[b]	18,829	19,671	295[b]	19,966
SUPPLY						
From domestic sources	11,563[c]	---	11,563	11,216[c]	---	11,216
From imports:						
raw material	(3,667)	(578)	(3,089)	(3,840)	(1,370)	(2,470)
refined products	(3,179)	(622)	(2,557)	(3,891)	(1,606)	(2,285)
Subtotal, from imports	6,846	1,200	5,646	7,731	2,976	4,755
Change in product inventories	208	---	208	724	---	724
TOTAL SUPPLY	18,617	1,200	17,417	19,671	2,976	16,695
DEMAND/SUPPLY DEFICIT	---		1,412	---		3,271
As percent of total demand			7.5%			16.4%

[a]Revised.
[b]Military requirements previously met from foreign sources but now expected to impact domestic demand.
[c]Includes 123 MB/D reduction of inventories of raw materials in fourth quarter, and is reduced by 14 MB/D increase of inventories in first quarter.

36

Table 2

SHORTFALLS AND STRATEGIES, FIRST QUARTER 1974
(Quantities in thousands of barrels per day)

Product	Gross Shortage: Thous. Bbls. per Day	Gross Shortage: Percent of Unconstrained Demand	Actions Taken or Announced: Action	Fuel Saving	Shift in Refinery Output[1]	Net Shortage	Potential Actions
Jet Fuel	400	32%	25% reduction in airline schedules	220	180	-5 (Surplus)	Conversion from kerosine-type to naphtha-type jet fuel
			General aviation restriction	5			
Gasoline	700	11	15% reduction through allocation program published December 12	900	-780	572	Price increase, tax increase, coupon rationing
			General aviation restriction	8			
			50-55 m.p.h. speed limit[2]	(200)			
			Sunday gas station closings[2]	(50)			
Distillate Fuel Oils	900	17	Reduction of 6° in residential and 10° in commercial heating	490	400	-30 (Surplus)	
			Other reductions published December 12	40			
Residual Fuel Oil	860	24	Oil to coal switch in 26 power plants	200	200	--	Excessive use taxes on electricity and natural gas
			Allocation program and reduced heating, published December 12	260			
			Voluntary conservation	200			
Other Petroleum Products	400	10	Allocation program published December 12	400		--	
TOTAL	3,260[3/]	16.3		2,723	--	537	

[1]Cost of Living Council regulations published December 4 encourage refinery shift; projected shifts remain to be validated.
[2]Actions taken to restrict demand, but impact is subsumed in supply restriction through allocation program.
[3]Differs slightly from total of 3,271 shown on Table 1 owing to independent rounding of various components.

THE PETROLEUM SITUATION
WEEK ENDING DECEMBER 7, 1973
(Millions of Barrels per Day)

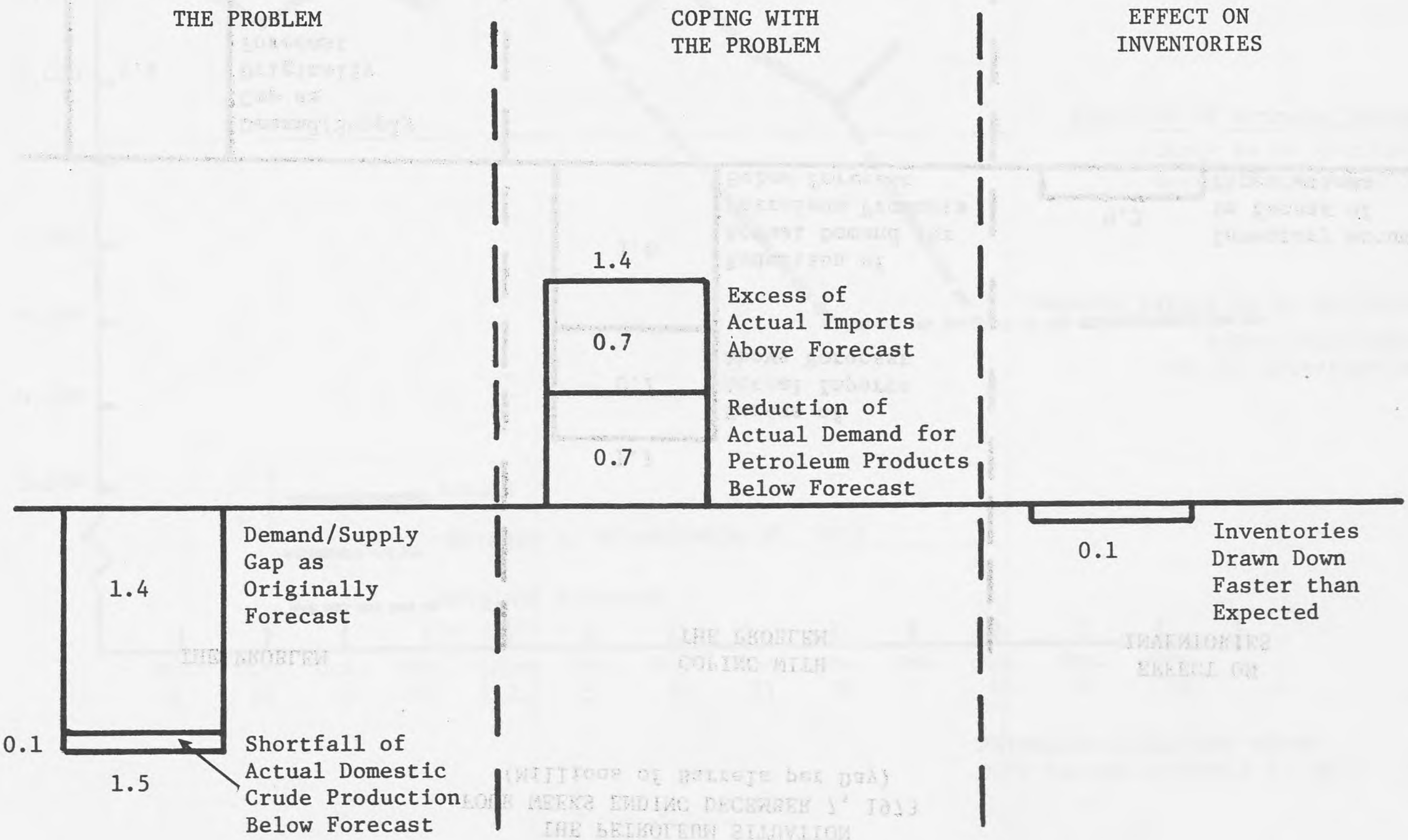


Chart 1

309

THE PETROLEUM SITUATION
FOUR WEEKS ENDING DECEMBER 7, 1973
(Millions of Barrels per Day)

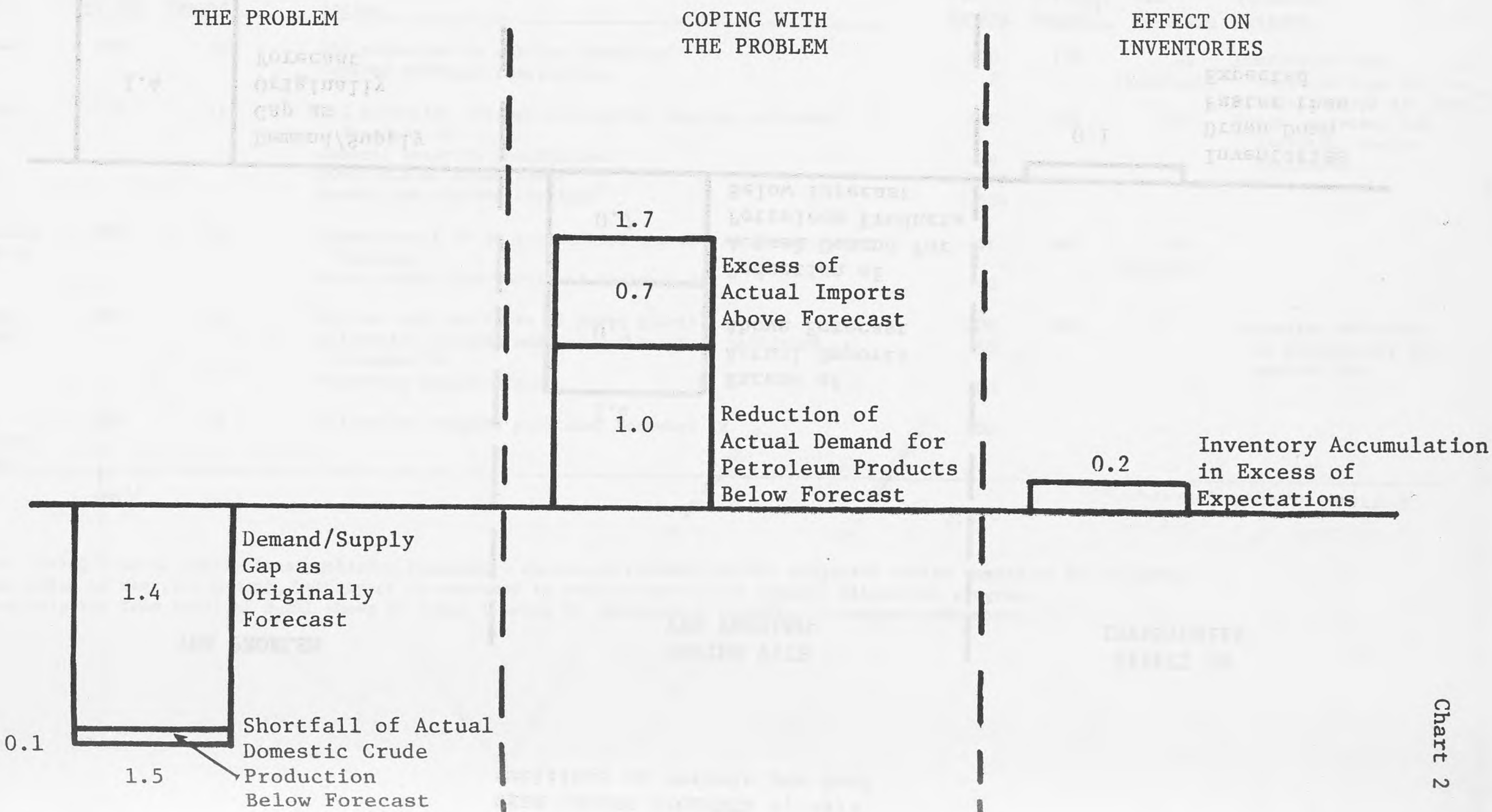
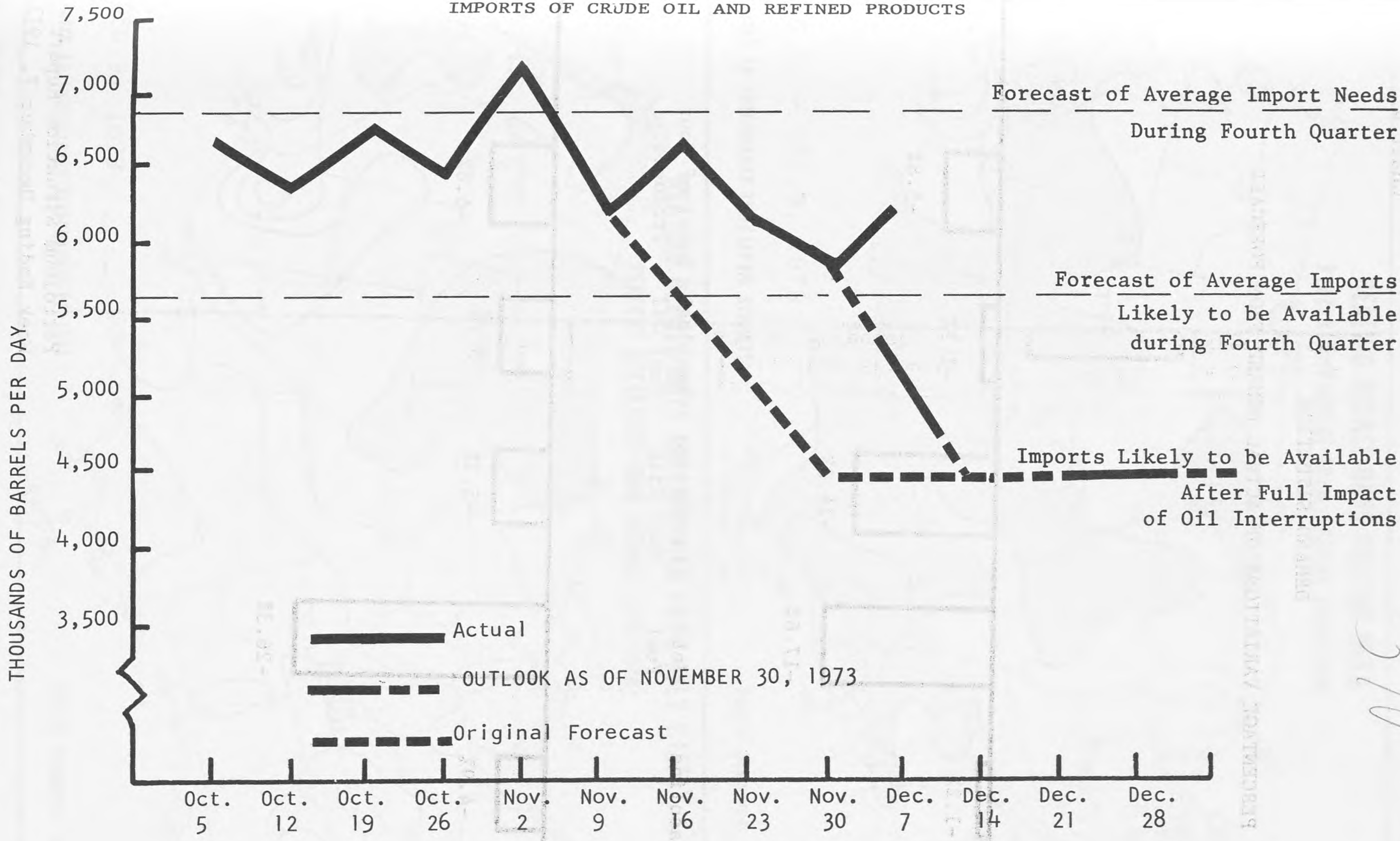


Chart 2

IMPORTS OF CRUDE OIL AND REFINED PRODUCTS

7,500

IMPORTS OF CRUDE OIL AND REFINED PRODUCTS



PETROLEUM SITUATION REPORT
WEEK ENDING DECEMBER 7, 1973

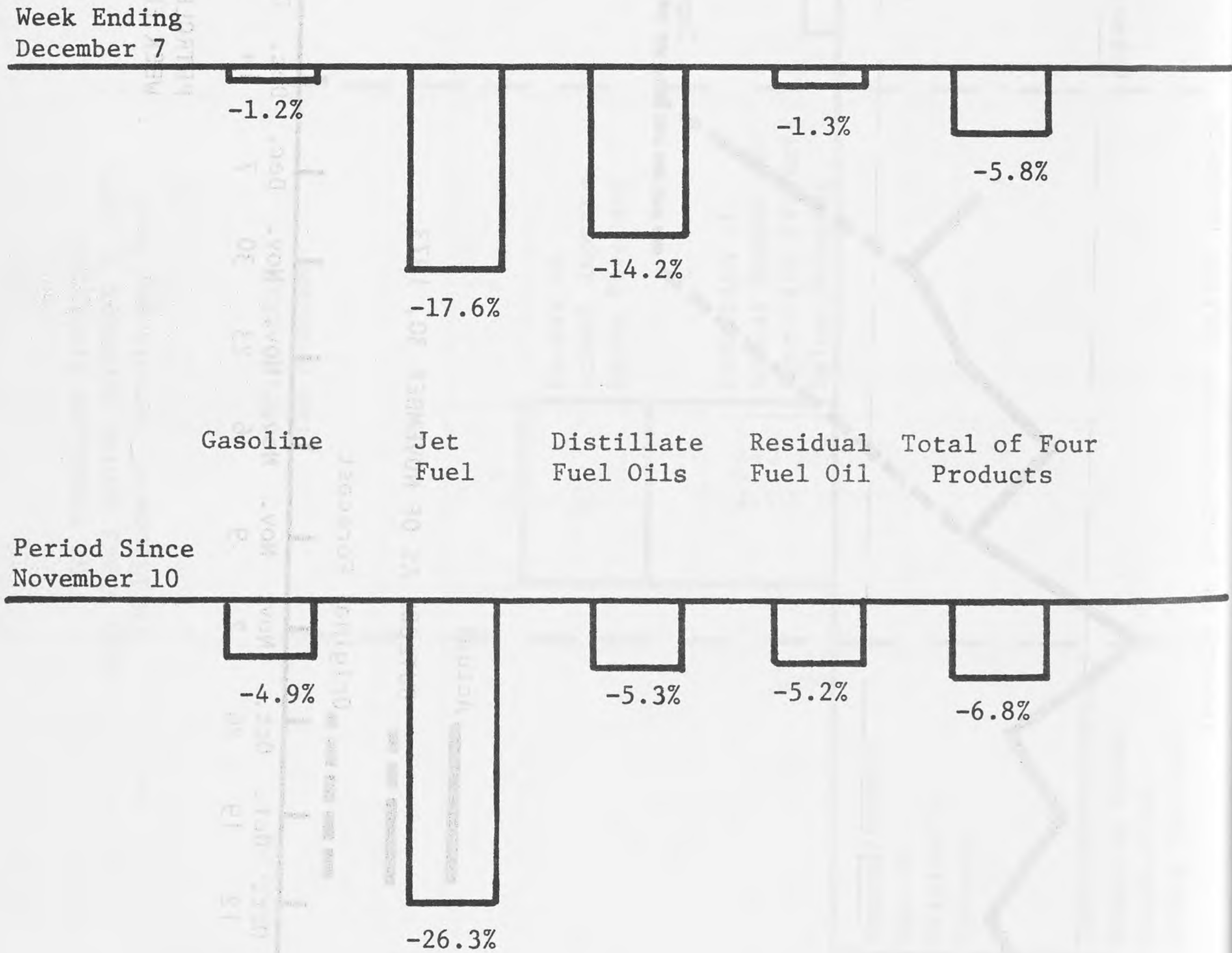
3/10

Chart 3

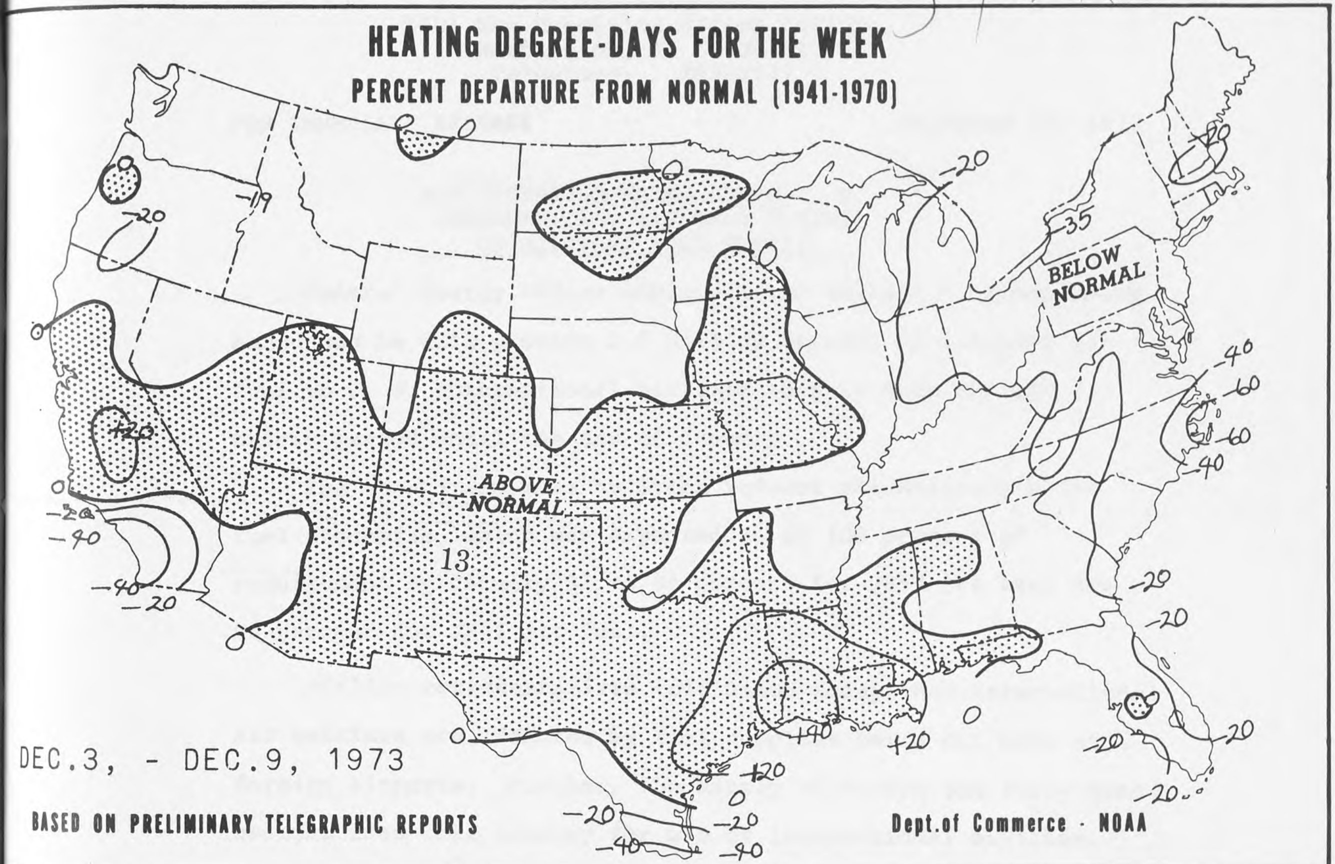
Chart 4

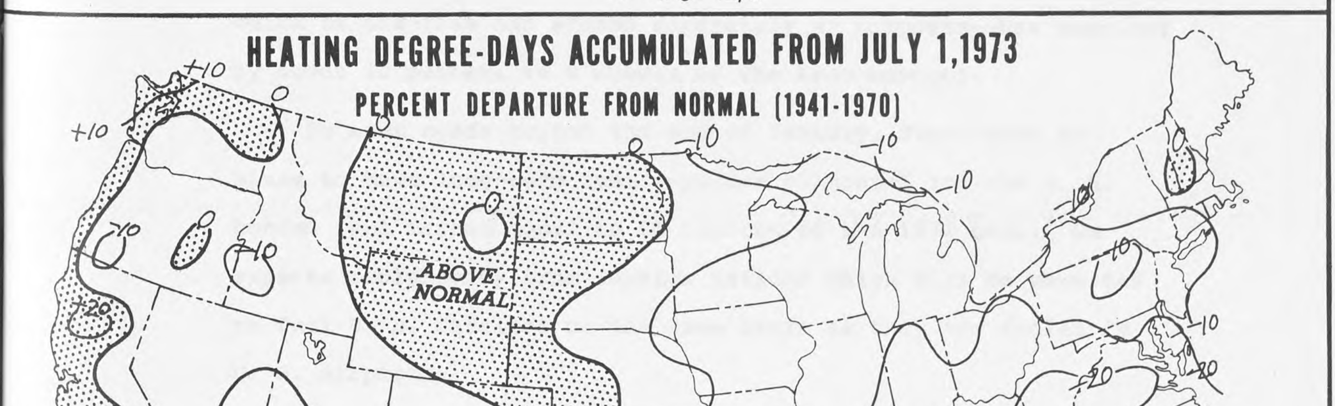
DEMAND SITUATION

PERCENTAGE VARIATIONS OF ACTUAL DEMAND FROM FORECAST



310 Chart 5





Note: above normal degree days correspond to below normal temperatures.

311

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FOR IMMEDIATE RELEASE DECEMBER 20, 1973

ADMINISTRATOR SIMON KEEPS U. S. INTERNATIONAL AIRLINES FLYING ON MILITARY FUEL SUPPLY

Federal Energy Office Administrator William E. Simon today announced he will provide 1.5 million barrels of military jet fuel to U. S. international airlines to help them through a crisis period until the end of January.

The short-term move by Simon reduces the military's jet fuel stockpile, which was expected to be 100 percent of requirement by January 31, to 95 percent for JP-4 jet fuel and 96 percent for JP-5 jet fuel.

Airline representatives told Simon today that international air carriers are affected by fuel supplies being cut back at foreign airports. Further, the supply of bonded jet fuel--fuel brought into this country for use by international airlines, which is tax-free and stored separately at airports--has been cut by about 30 percent as a result of the Arab boycott.

To meet needs beyond the end of January, Simon said he plans to have long-term fuel supplies allocated for the U. S. bonded fuel market equal to 85 percent of the 1972 base. He expects reciprocity from foreign nations which will be expected to fuel U. S. carriers on the same basis as they are fueled in U. S. airports.

Administrator Simon further stressed that his action today will bring U. S. international air carriers to the same standards proposed for domestic air carriers, as set forth in the proposed Mandatory Fuel Allocation Regulations.

He has also ordered U. S. international air carriers to reduce the number of their flights, similar to the reduction he ordered for domestic airlines.

E-73-28 -FEO-

Temporary telephone numbers of Federal Energy Office public affairs:

General Information	395-3537
Press Interviews	395-3497
Allocation Program	395-4672
Energy Conservation	343-8634

FEDERAL ENERGY OFFICE
Public Affairs
4001 New Executive Office Building
Washington, D. C. 20461
Telephone: 395-3537

3/2

FOR IMMEDIATE RELEASE DECEMBER 20, 1973

SIMON URGES MOTORISTS: "TAKE TEN AND SAVE"

William E. Simon, Adminstrator of the Federal Energy Office, today urged owners of private cars to limit gasoline consumption to 10 gallons a week. He also asked gasoline stations to cooperate by limiting sales to ten gallons per customer.

"If we reduce average gasoline consumption to this level, we will save about 1.2 million barrels of gasoline a day, or almost 20 percent of consumption. This voluntary action will go a long way toward avoiding other, more stringent measures," Simon added, "and I know that most Americans would prefer a voluntary system. In the past four weeks we have already cut gasoline consumption by 4.9 percent, so I know people are taking this problem seriously, as they should.

"Some drivers will need more than ten gallons, such as traveling salesmen, or those who commute long distances to work and cannot form carpools or use mass transit. Thus, I am asking those drivers who can get by with less than their ten gallon share to do so, in order that those who need more gasoline will have it available," he said.

"I do not believe anyone needs to suffer with this ten gallon a week voluntary limit. For example, if you must use more than ten gallons one week, try to use less than ten gallons the next week. Try taking the bus to work, or combine several driving errands in one trip. Better still, try walking or biking when possible: it's a great way to lose weight and keep fit."

E-73-29 -FEO-

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FOR IMMEDIATE RELEASE DECEMBER 20, 1973

ADMINISTRATOR SIMON CALLS FOR
ADDITIONAL CONSERVATION ACTIONS

At his weekly press conference, Federal Energy Office Administrator William E. Simon today called for additional actions to conserve energy. "The potential shortages of petroleum products during the first quarter of 1974 will be over 16 percent of total petroleum demand," he predicted.

"A number of actions have already been taken to deal with the shortage; however, to meet this shortfall, as well as avoid the need for even more stringent measures, greater personal commitment to energy conservation will be required by all Americans."

He urged united action and listed the following actions that could eliminate the shortage:

CONSERVATION ACTIONS

In Your Home

° Turn down thermostats to 68°, no matter what kind of fuel you use;
° Reduce levels even further to 60° or 55° at night and when you are away;
° "Weatherize" your home with insulation, weather stripping and storm doors and windows;
° Turn off all outdoor ornamental lighting.

In Your Auto

° Buy 10 gallons of gasoline and make it last all week;
° Join a car pool;
° Slow down, don't exceed 50 mph;
° Pick two days a week when you won't use your car.

At the Office

° Remove at least every other light in work areas, and three out of every four in hall and storage areas;
° Turn off all external and internal lights on weekends and during the night, except for critical security purposes;
° Reduce heating and cooling loads.

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313

FOR IMMEDIATE RELEASE DECEMBER 20, 1973

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314

FOR IMMEDIATE RELEASE DECEMBER 19, 1973

AGRICULTURE ADVISORS OFFER VIEWS
TO FEDERAL ENERGY OFFICE

Leading agricultural spokesmen pledged cooperation and offered specific suggestions on the new Federal energy program yesterday in Washington.

During discussions with Federal Energy Office (FEO) officials, the Agriculture Advisory Committee recommended:

1) an annual rather than a monthly base period for allocation of diesel fuel to aid proper crop planning;

2) more up-to-date information to grass roots fuel dealers regarding regulations and program changes;

3) shifting mandatory aviation fuel regulations from general aviation to the agricultural production section; and

4) special consideration for fishermen, who move annually to new fishing grounds and have few records of past fuel consumption.

These and other suggestions made during the meeting will be considered by Administrator Simon and his staff as they review the Proposed Mandatory Fuel Allocation Regulations, due to go into effect December 27.

Duke Ligon, FEO's Deputy Administrator for Policy, Planning and Regulation, stressed that although farmers would get most of the fuel they require, they should do everything they can to conserve energy.

Administrator Simon has met with the Independent Petroleum and Emergency Petroleum Preparedness Committees on Monday, and the agricultural leaders on Tuesday. He will meet with business, consumers, and environmental groups throughout the remainder of the week.

-FEO-

E-73-25

Temporary telephone numbers of the Federal Energy Office public affairs:

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

FOR RELEASE AT 3:30 P.M., EST
DECEMBER 21, 1973

3/5

U.S. AND CHILE REACH UNDERSTANDING ON DEBT REPAYMENTS

The Departments of Treasury and State announced today that representatives of the United States Government and the Government of Chile have reached an understanding on repayment of debts to the United States that were due from November 1971 through December 1972. This understanding implements a multilateral debt rescheduling arrangement reached in Paris on April 19, 1972, between the Government of Chile and 12 creditor governments.

Under the understanding, a total of over $60 million will be paid over the next four years with $16 million of this amount paid on December 28, 1973. An additional $64 million will be paid in six years beginning on January 1, 1975, with 6 percent annual interest.

Chile has been unable to meet payments due on debts to the United States and certain of its agencies during 1973. These unpaid obligations, as well as debts due during 1974, will be the subject of a meeting of creditor nations in Paris scheduled for February 1974.

The Chilean Government reiterated its intention to fulfill all of the provisions of the April 1972 multilateral debt rescheduling agreement and, in particular, their intention to carry on direct negotiations aimed at providing just compensation for outstanding nationalizations of U.S. interests.

In the discussions leading up to the understanding, the Chilean representatives discussed the economic situation in Chile and the progress they have made on a standby arrangement with the International Monetary Fund to help support a Chilean economic stabilization program.

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S-342

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

FOR IMMEDIATE RELEASE 316 December 21, 1973

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $4,300,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing January 3, 1974, in the amount of $4,302,330,000 as follows:

91-day bills (to maturity date) to be issued January 3, 1974, in the amount of $2,500,000,000, or thereabouts, representing an additional amount of bills dated October 4, 1973, and to mature April 4, 1974 (CUSIP No. 912793 TF3) originally issued in the amount of $1,800,960,000 the additional and original bills to be freely interchangeable.

183-day bills, for $1,800,000,000, or thereabouts, to be dated January 3, 1974, and to mature July 5, 1974 (CUSIP No. 912793 UD6).

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Friday, December 28, 1973. Tenders will not be received at the Treasury Department, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

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

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on January 3, 1974, in cash or other immediately available funds or in a like face amount of Treasury bills maturing January 3, 1974. 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

317

FOR IMMEDIATE RELEASE December 19, 1973

Note to Correspondents:

Attached is the Treasury Department's explanation of the Emergency Windfall Profits Tax, which President Nixon announced today he would recommend to the Congress when it reconvenes in January.

The explanation includes two appendices which describe two possible uses for the tax revenues which the Congress may wish to consider. These are an Energy Development Trust Fund and a "plowback" system.

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S-341

318

December 19, 1973

Proposal for an Emergency Windfall Profits Tax

We recommend that the Congress enact an Emergency Windfall Profits Tax, applied at graduated rates and designed to recapture the windfall profits that would otherwise be realized over the next year or so by the producers of oil. The tax is described in detail below.

Background.

A scarcity of crude oil, abruptly worsened by the embargo of the Arab oil producing nations, has driven up dramatically the price of crude petroleum in the free world market.

Crude oil prices in the near future will exceed what is required to bring forth the production which will eventually satisfy demand. The proposed Emergency Windfall Profits Tax would apply to that excess.

In the long run, if the demand for oil is going to be larger and we must therefore turn to higher cost sources, prices must rise some reasonable amount above present levels. If the United States is to become self-sufficient, we must learn to live within our own resources. Nothing we can do will increase the amount of oil in the ground in the United States, but there is much that we can do to expand U.S. production. There is much oil in the ground which we have located and drilled for, but which we make no attempt to get up because the cost of getting it up is not justified by the price it will bring. It is estimated that primary recovery--obtaining the oil by natural flow or by pumping from a given pool--yields something like one-third of the oil in a pool. Making the remainder available requires much more expensive processes, and will not occur to the extent needed until prices make those processes economically feasible. Similarly, the oil potentially recoverable from shale in the United States would supply all of our needs for many years, but current price levels do not cover the cost of solving the technological problems of recovering it nor of making the large investments in plants and equipment which would be required to obtain substantial volume from that source.

The immediate problem is how to permit price incentives to operate within a range which is reasonable, without permitting oil producers to retain what is unreasonable.

The Windfall Element.

It will take time to increase substantially the supply of crude in the United States. New reservoirs must be discovered and drilled. Old wells previously uneconomical must be rehabilitated. Processes such as secondary recovery must be put in place. Processes such as shale oil recovery will commence to come on line only over a period of years as producers conclude that they can count on price levels which make that recovery economic, and then there will be time lags in solving technical problems and building plants.

We believe that supply and demand will come into normal balance --if permitted to operate in normal fashion--over a period of several years. Even moderate price increases will contribute significantly to eliminating shortages. Moderate price increases will bring in more production, thus increasing supply. At the same time, those price increases will cause people to be a little more thrifty. It will cost more to do that extra, unnecessary driving, and it will save more to insulate homes and install storm windows.

However, in the period before that adjustment is completed, the abrupt nature and magnitude of the current shortage could, in a free market, cause the price of crude oil to shoot substantially above the levels required to bring supply and demand into balance over a two to three year period. This produces a "windfall"--a price to producers which is more than producers could have anticipated when investments were made and more than that required to produce all that we can in fact expect to be supplied.

For example, suppose that a price of $7 a barrel for crude oil would be sufficient after two or three years to induce increased supplies and to dampen demand, so that shortages would disappear. Such a price would be "the long-term supply price." If in the interim, the price goes to $8 or $9 a barrel, the excess of the $8 or $9 price over the long-term supply price is a "windfall"--it is more than the price required to produce all that is in fact being supplied or is likely to be supplied in the next several years. The windfall and the tax would, of course, be even greater if prices should, on a temporary spot basis, shoot to the range of the $17 prices paid in some recent foreign auctions.

No one knows exactly what the long-term supply price is, as no one can predict the future that clearly. Our best estimate is that it would be in the neighborhood of $7 per barrel within the next few years. In terms of gasoline prices, such a figure represents an increase from present levels of less than 10 cents a gallon. (A convenient rule of thumb is that each dollar of increase in the price of crude oil increases gasoline prices by 2-1/2 cents per gallon.)

319

Likewise, no one knows what level the price of crude would reach in the next few months if it were freed from all controls. If prices were freed, we could expect erratic behavior for several weeks, after which the price might settle in the $8 to $9 range, and that thereafter the price would decline gradually to the lower long-term supply price.*

Some windfall profits have been made during the past few months and have contributed to the sharply increased over-all reported profits of oil producers. Those windfall profits can be expected to increase further in the next few months as prices move up.

Emergency Windfall Profits Tax.

The nation is faced with a problem which can be solved only if everyone contributes to the solution.

In the face of large and imminent windfall profits, we therefore propose an Emergency Windfall Profits Tax on the producers of oil.

In designing the tax, we have tried:

(1) To design the tax not only to capture future windfalls, but also to make up in some degree for windfalls which have occurred in the past.

(2) To avoid a heavy tax on that part of the return to producers which is necessary to obtain increased production. It would be self-defeating to take away the profit which is needed to increase production and thus to eliminate shortages.

*Under our present two tier system of price control, more than 80 percent of our domestic supply ("old oil") is controlled at a price level far below the market, and the remainder ("new oil") is not controlled at all. This means that normal market pressures are concentrated on less than 20 percent of the total production. Thus, in the event supply restrictions by exporting countries were to force oil prices to an $8 or $9 average price, the price of "new oil" might well go to $20 or more per barrel. This high price of "new oil," averaged with the controlled prices of "old oil" would yield an average price of $8 - $9. As the proportion of "new oil" in the total increased, its price would decline. Thus, if all oil were uncontrolled, the average price of $8 - $9 would prevail for all.

(3) To phase out the windfall tax as the windfall disappears, and to place a definite time limit on the duration of the tax. Windfalls are by their nature temporary for the reasons cited. A normal free market will eliminate windfalls, given time. Unless the tax is permitted to phase out as the windfall disappears, it would continue to tax those profits which are necessary to induce greater supplies. The tax would then not reduce the return to producers; it would serve only to keep prices to consumers higher than otherwise would prevail.

Description of Emergency Windfall Profits Tax.

1. Summary of Tax

An "Emergency Windfall Profits" tax at graduated rates will be imposed on the sale of a barrel of crude petroleum at a price in excess of a specified base price per barrel. The tax will apply only to the excess over the base price and will be imposed on and collected from the producer of crude.

2. General Explanation

A. Base Price: Excess Taxable.

Each producer's base price will be the ceiling price on December 1, 1973, under regulations §150.353 of the Cost of Living Council for domestic crude petroleum of that grade and location. That ceiling price is the posted field price on May 15, 1973, plus 35 cents. With the exception of crude petroleum produced abroad, these base prices and the tax, will apply to all crude sold after the date of enactment whether or not it was subject to the ceiling price (including "new crude petroleum" within the meaning of §150.354 of those regulations). In the case of new fields or production for which no ceiling price was applicable or determined on December 1, 1973, the base price will be determined by reference to ceiling prices on that date for crude of comparable grade and location.

The application of the tax to the excess of the selling price over the producer's base price per barrel is illustrated by the following example which reflects the base price of a hypothetical taxpayer and a hypothetical increase in that price:

(1) Actual Selling Price	(2) Taxpayer's Base Price (CLC Ceiling Price)	(3) Taxable Amount
$5.00 per/bbl.	$4.00 per/bbl.	$1.00 per/bbl.

On these facts, the tax would be computed as follows:

Column 1 ($5) - Column 2 ($4) = Column 3 ($1) x Rate

Where there is no sale of crude, as in the case of an integrated producer, a comparable result will be achieved by applying the tax to the excess of the value at the field over the base price. This value will be determined by reference to comparable field selling prices and is the value used by the producer for the purpose of calculating his percentage depletion deduction under the Federal income tax.

The producer will also pay Federal income tax on the balance of the selling price after he deducts the Windfall Profits Tax and his other expenses.

B. Rate of Tax.

The rates of tax applicable to the excess selling price will range from 10% to 85%, under the following graduated rate schedule:

Amount Taxable ($)	Bracket Rate (%)	Bracket Tax ($)	Cumulative Tax ($)
0 -- .50	0	0	0
.51 -- .75	10	2-1/2 ¢	2-1/2¢
.76 -- 1.10	20	7¢	9-1/2¢
1.11 -- 1.70	30	18¢	27-1/2¢
1.71 -- 2.50	50	40¢	67-1/2¢
2.51 -- over	85		

In accordance with regulations prescribed by the Secretary of the Treasury, the top level of the lowest bracket (initially 0 to $0.50) will be automatically adjusted upward in the uniform percentage required to make the 10 percent rate of tax applicable after 36 months only to amounts in excess of the expected average long-run supply price of about $7 per barrel. Each higher bracket will be adjusted upward to apply to a constant number of cents per barrel in price above the next lower bracket.

The use of graduated rates of tax in combination with a scheduled upward adjustment of the brackets accomplishes three major purposes of the tax as part of the solution to the current energy situation.

-- First, the graduated rates impose very high rates of tax on extraordinary price increases and "windfall" profits which are attributable more to an externally induced shortage in crude supplies than to long-run market conditions, but impose a lesser amount of tax on relatively small increases above the artificially low ceiling price of May 15, 1973.

--Second, the automatic upward adjustment of the tax brackets recognizes both the temporary nature of current shortage and the expected gradual increase in crude petroleum price over time due to ordinary rates of inflation and the anticipated long-run increase in demand. Most importantly, the adjustment of the brackets, and the phase-out of the tax that it implies, permits the market to eliminate the shortage by calling forth an increase in supply as rapidly as possible consistent with not permitting the accumulation of "windfall" profits in the short run.

-- Third, as supplies are increased in response to higher after-tax profits, the concurrent disappearance of the tax will permit consumer prices of petroleum to be no more, nor less, than the costs of bringing forth a steady supply of oil. If the tax were not phased out as after-tax prices received by producers return to long-run supply levels, the tax would cause prices to consumers to be higher than they otherwise would be.

C. Collection and Imposition.

It is contemplated that the tax will be collected and remitted as follows:

The tax will be imposed on the producer at the time of sale of the crude or at the end of the month in which produced if not sold. It is contemplated that the tax will be collected and remitted on a monthly basis as follows:

(i) The purchaser will collect the tax from the producer by withholding the tax from the sales price and will remit by the 15th day following the end of each month the tax due on all crude petroleum purchased during the preceding month.

(ii) In the case of crude produced but not sold, as in the case of an integrated producer, the tax will be paid by the producer by the 15th day following the end of the month.

321

Sales of crude petroleum are with few exceptions made to refineries. Since there are fewer than 200 refineries, as compared to many thousands of producers and royalty owners, collection of the tax in this manner will facilitate compliance and administration.

D. Computation of Percentage Depletion.

For purposes of computing percentage depletion under §613 of the Code, gross income from oil and gas wells will be reduced by the amount of the applicable Windfall Profits Tax.

E. Duration of the Tax.

Because the period of extraordinary profits is expected to be limited in duration, it is important that Congress reconsider the tax after several years of experience. In order to facilitate that recommendation, the tax will by its terms expire 60 months after the date of enactment unless otherwise extended.

Appendix A

Energy Development Trust Fund

All or part of the receipts from the Emergency Windfall Profits Tax could be allocated to an Energy Development Trust Fund to be administered by the Secretary of the Treasury. The Trust Fund would provide capital for the Energy Development Bank which would provide loans for the development and conservation of domestic energy sources with the goal of soon becoming independent of foreign supplies. In effect, the purpose of the Trust Fund would be to accelerate the rate of technological change in the energy section of the economy.

The Energy Development Bank would assist in financing projects for the development of energy supplies which cannot be undertaken as private commercial projects because of large capital requirements, uncertainties of commercial success, etc.

The Bank's Board of Directors would consist of five persons appointed by the President with the advice and consent of the Congress. Directors would serve full time for terms of five years (staggered). Board members would be selected on the basis of demonstrated ability in banking and finance, science, and energy production and management. The Federal Energy Administrator would be Chairman of the Board, *ex officio*.

An Advisory Board of nine persons, including representatives of labor, consumer and educational interests, and of other government agencies, would be constituted to review progress and performance of the Bank at predetermined intervals. Advisory Board members would be appointed by the President and serve for terms of three years (staggered).

The authority of the Bank would include:

- Direct loans to finance novel or long-range projects for the development of increased domestic energy supplies.

- Direct loans to finance projects for the conservation and protection of the environment in the production of increased domestic energy supplies.

- Price guarantees for energy supplies produced by supported projects.

- Reinsurance of risks from environmental hazards created by supported projects.

The Bank would have complete discretion as to the terms of the credits extended and should not be expected to produce current profits or avoid losses. However, it should be sufficiently staffed to allow it to discriminate intelligently in favor of those projects which have the greatest merit.

"Plowback"

If an Emergency Windfall Profits Tax is enacted, Congress may wish to consider the desirability of refunding or otherwise forgiving all or a part of the tax if the taxpayer "plows back" his profit into some energy producing investment.

A number of Congressmen and writers on economic subjects have discussed a plowback concept. Bills introduced by Senator Gravel and by Senator McGovern and Representative Aspin contain such provisions.

In assessing such a proposal, Congress would wish to consider the following aspects.

Mechanics: refund, credit or deduction.

Two mechanics to implement a plowback have been suggested: (i) a deduction against the tax base (the amount of windfall profit) for qualifying expenditures and (ii) a refund or credit of the windfall tax equal to qualifying expenditures. The basic considerations and problems are common to each approach. The tax refund or credit approach would be the appropriate mechanism to use in conjunction with the proposed Emergency Windfall Profits Tax, since, for simplicity of administration, the tax will be collected by the first purchaser of the crude oil who will not have information on qualifying expenditures made by the oil producer.

A system for a tax refund or credit based upon qualifying expenditures would require a definition of qualifying expenditures and a fast, simple procedure for obtaining a refund or credit, in order that the refund or credit might supply the cash for the investments desired.

A relatively fast and simple procedure for obtaining a refund or credit would be for the producer to file a refund claim (for any period not shorter than one month) consisting of a statement of qualifying expenditures made during that period together with copies of receipts from the purchasers of the oil for the taxes paid during that period.

Definition of qualifying expenditures.

Defining qualifying expenditures requires decisions as to the types and amounts of expenditures to be encouraged. Most proposals to date would cover not only expenditures for additional oil discovery and production, but research and development of alternate energy sources as well. It is doubtful whether in the next three to five years (when shortages are likely to be more critical) new energy sources other than oil could become available in significant amounts at competitive prices. Accordingly, it might be appropriate to vary the amount of incentive among different types of expenditures to give more incentive to those which produce more immediately useable energy supplies. Arguably, the credit for qualifying expenditures should be confined to those expenditures in excess of existing levels if the credit is to provide maximum incentive for additional expenditures. It would be necessary, in such a case, to choose some historical base level of expenditures and give a credit only for the excess amounts. Inequities for some taxpayers would occur in the selection of a historical base and new producers would have an advantage in that they have no base.

Carryovers and carrybacks.

A carryover and carryback of expenditures for some relatively short period, such as one year, would even out monthly fluctuations in qualifying expenditures. A long carryover or carryback period would be inadvisable because it would provide less incentive for immediate expenditure increases which would produce more immediate supplies.

Procedural complexity.

The principal complexities in the refund mechanism will occur where the oil is sold by the operator on behalf of many fractional interest holders. Each interest holder will have to be furnished a receipt by the operator for his share of the tax paid. However, since the operator currently provides on a monthly basis information of the same basic type and remits sales proceeds monthly, no insurmountable problems are foreseen.

Effect on producer profits.

A plowback system will, of course, return windfall profits to producers, since the tax refund will have the effect of increasing income and the qualifying expenditures will largely be capitalized rather than deducted currently.

324

Incentive effects.

An increase in the price of crude oil might itself provide sufficient incentive to develop all of the energy supplies that could reasonably be required or expected in the next several years. In that case, the tax refund would not provide the desired incentive. In addition, the effect of the plowback is to give a preference to energy investments made by oil producers over energy investments made by others. It is probably true, on the other hand, that the expenditures most effective in the short term to increase energy supplies will be those for exploration and development of oil supplies, so that this preference may not be of great concern.

FOR IMMEDIATE RELEASE DECEMBER 19, 1973

Office of the White House Press Secretary

325

THE WHITE HOUSE

STATEMENT BY THE PRESIDENT

One of the central facts underlying the national energy crisis is that we have a shortage in the production of domestic crude oil. This shortage has been further aggravated by the embargo of oil by the Arab nations. It is one of the ironies in the present situation, as well as one of the sources of confidence that we can solve the energy shortage, that the United States is an energy-rich nation. In addition to our superabundance of coal, oil shale, natural gas, and other resources, both natural and technological, we also possess extensive supplies of oil. In the past we have drawn on proven supplies in the most economical manner and this practice, coupled with heretofore cheap imports, has provided us with sufficient petroleum and, more importantly, petroleum at very low prices.

It has not previously been commercially feasible to develop our oil shale resources, or to extract all of the crude oil which exists in developed fields and in unproven reserves. Now we must become self-sufficient in energy, and in order to do so we must be prepared to pay the attendant costs.

In order to increase our production of crude petroleum, new reservoirs must be discovered and drilled, often to deeper and more costly depths. Expensive new technology must be applied to existing wells to bring up more of the 60 percent of the crude oil which present drilling processes leave in the ground. Very large expenditures are also needed to produce oil from oil shale, a resource which alone could supply our needs for years to come.

Today, prices of crude oil in the world market are rising and it is inevitable that they will come to rest at levels higher than we historically have enjoyed. Nevertheless, after a short-run adjustment period, the long-run price required to supply our needs should not be unreasonably high.

In the meantime, because of the abrupt nature of the present shortage, prices could temporarily exceed the price levels required to increase supply, and oil producers could reap unanticipated "windfall" profits.

Emergency Windfall Profits Tax

I want to assure all Americans that there will be no windfall profits at their expense. When the Congress reconvenes in January, I will ask it to enact an Emergency Windfall Profits Tax. The specific details of this proposal will be provided today by the Treasury Department. Over the holidays, the Treasury Department will continue to work with Congressional staffs so that this proposal and related materials will be ready for consideration by the Congress after the holiday recess.

The Emergency Windfall Profits Tax I will propose would apply at rates graduated up to 85 percent on the sale by any domestic producer of crude oil at prices higher than the ceiling price of the Cost of Living Council on December first.

(MORE)

This special emergency tax will prevent future windfalls to producers and will make up, in some degree, for those which may have already occurred.

At the same time, the tax is carefully designed to avoid completely depriving producers of a legitimate return on the major investments they will have to make in order to produce the additional supply we need. It would be self-defeating to tax away the oil producers' incentive and ability to help meet our energy shortage.

The Emergency Windfall Profits Tax must be a temporary tax. This is an essential part of my recommendation to the Congress. The tax is intended only to serve the immediate objective of preventing windfall profits to oil producers while other economic factors are at work to increase supply and eliminate the shortage in crude oil. As prices return to the long-run supply level and as the potential for windfall profits disappears, a continuation of the tax would result in higher prices for consumers, with no concomitant increase in oil supplies.

I am not today making any recommendation to the Congress for using revenues derived from the Emergency Windfall Profits Tax. That will naturally be a part of the Congress' deliberations. There are a number of possibilities for use of these revenues. One would be to place those revenues in an Energy Development Trust Fund which would act as a bank for the financing of a wide range of energy development and conservation projects which might not otherwise be feasible. Another possibility would be to refund all or part of the tax to the oil producer if he invests his profits in additional energy producing efforts.

These and all othe possibilities for increasing our energy production at a faster pace, as well as for minimizing any inequities resulting from the present shortage, are being given the most careful study. The steps which I am announcing today are not the entire answer to our energy needs, but they will contribute significantly to the overall solution.

We must be more creative in conserving our vital natural resources, and we must do more to develop those resources. As we take these steps, every American must be assured that others will not profit at his expense. My recommendation to the Congress for an Emergency Windfall Profits Tax is designed to give that assurance.

# # #

FOR IMMEDIATE RELEASE DECEMBER 19, 1973

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

326

THE WHITE HOUSE

PRESS CONFERENCE
OF
GEORGE P. SHULTZ
SECRETARY OF THE TREASURY

THE BRIEFING ROOM

AT 3:15 P.M. EST

SECRETARY SHULTZ: I might just say at the outset that around 4 o'clock, or as soon as we can get over there, we will have a briefing by Mr. Hickman, the Assistant Secretary of the Treasury, on this proposal and those of you who want to dig in and ask about the ins and outs can do so.

Q At the Treasury?

SECRETARY SHULTZ: Yes. 4426 Main Treasury is where that will take place.

As the President said, he has proposed today an emergency windfall profits tax. This tax is designed, first of all, to retrieve for all the American people the windfalls that may occur as a result of rapidly rising prices due to the energy shortage.

Second, at the same time to encourage, as we must, the efforts on the part of investors to do those things that are necessary to increase the supply of energy in the long-run.

And then finally, of course, as the increased supplies come on stream, gradually to withdraw the tax so that it does not wind up as a tax on consumers by being left on too long. Those are the main characteristics of this tax.

Now here is how it works. Anybody who is producing crude oil has, by the terms of this tax, a base. That base is established essentially by reference to the Cost of Living Council price regulations. Then, one can compute at any time period the average price that that producer has charged under varying conditions, whether it is stripper well oil, which is free from controls; whether it is new oil that is free from controls, or whether it is a controlled price of oil, it can be computed what price that person charged. Then a tax can be computed using the table that you see on page five and as you can see, the rate of taxation escalates very rapidly as the price rises.

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Now, most people seem to think that the long-term price that will draw the supplies we need into the market is somewhere in the neighborhood of $6.50 to $7.00. Now, you can see that the revenues from prices in excess of around $6.50 to $7.00 are taxed initially at a rate of 85 percent. That is a very high rate of taxation, obviously, and, in a sense, you can say that the genuine windfall is the revenue from a price above that long-term possible equilibrium price.

We have, then, established a set of tax rates. These tax rates over a period of time, three years to be precise, to get to the $7.00 rate, move up and therefore, the windfall profits tax, in effect, applies to higher and higher rates of price, rates of price that we don't expect to see exist way out in the future.

So, in a sense, it becomes an irrelevant tax. In other words, we have an immediate problem and people who are sitting on good producing oil and who are able to charge a very high price as a result of the emergency, have a windfall. That windfall is what gets taxed.

At the same time, we want to say to the investor, if you put your money in the ground, and you do the research, and you do the exploration now, looking for perhaps more expensive oil and that oil comes onto the market two years from now or three years from now, you can see that this rate of taxation is going out of the picture and you will be able to get a rate of return on the price that you may justifiably expect.

Now, there are two added suggestions here that the President has put forward for consideration by the Congress. They are Presidential decisions and recommendations, but they are suggestions that we think the President thinks deserve consideration. One is the idea of a plow-back feature in which you say, given the great needs for capital in this industry, in which you say that firms can get credit for certain specified activity that is thought to be in the national interest and can apply those credits against the tax that they have paid in order to have money back from the tax, plowed back from the tax and used for these purposes. That has been a very popular idea. There has been a great deal of discussion of it in the Congress and we think there are some very strong things to be said for it.

We have some reservations about it, but we are ready to put it forward and engage in a discussion with the Congress about how to implement it and to implement it in a way that is basically constructive.

Second is the notion that some, or all, of the money that would be collected from this tax might alternatively be put into a trust fund which would be held and invested in Government bonds and the money basically put into the hands of a bank. And you can see in this description how that bank might be constructed.

MORE

327

The bank, having some funds then to loan for various types of long-term projects or especially far-out projects -- conservation projects, projects involving energy sources other than oil -- and would have some money available to do that with, so that might be still another way in which the funds generated by this tax might be used.

As I say, these are both options for consideration by the Congress and we stand ready, the President stands ready, to work with the Congress now or as soon as they return from their recess, to work through these ideas, consider them carefully and try to get into place as soon as possible a tax that will take care of the windfall problem, thereby assuring a greater measure of equity in the way this problem is handled and also to consider the alternate ways of using the money.

Q Have you discussed this with Chairman Mills and, if you have, has he given you any indication of how quickly his committee will move on it?

SECRETARY SHULTZ: I have, of course, described this program to key Members of the Congress, including Chairman Mills, and they have reacted with interest and nobody commits themselves on the dotted line that this is the program they will adopt, but I think everyone recognizes that this is a problem. I think there is a willingness to look at this proposal and to consider it very carefully.

Q What are you proposing to do about price controls on crude oil and on products?

SECRETARY SHULTZ: Of course, the structure of the price control system is that you have the basic ingredient, crude oil. That price is now controlled in part. There is the old oil control price, but imported oil is free from controls, otherwise we wouldn't be able to bring it in. Stripper well oil -- oil coming from wells where the average rate of production is ten barrels a day or less -- coming from leases where the average is that, and so-called new oil is all decontrolled and those prices, of course, rise in the free market.

Now, decisions will be made on the subject of crude oil prices as far as the controlled price is concerned. The other prices, of course, go with the world price. On top of the price of crude oil rests a pass-through structure of controls affecting refiners and distributors on to the ultimate distributor and those controls stay in place and whatever happens to the price of crude, of course, can be passed through in that structure.

Q Are you proposing to free the price of crude when this tax goes into effect?

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SECRETARY SHULTZ: No, this proposal stands on its own feet as a proposal to handle the windfall problem at whatever the price of crude turns out to be. That is the place where the windfall would occur in its greatest measure.

Now, what will happen to the price is a separate decision to be made within the framework of the overall stabilization effort.

Q Mr. Secretary, you have your plowback feature as an option and not as a part of the proposal that you are definitely seeking. What are your reservations about it and why did you not put it in?

SECRETARY SHULTZ: We think it is basically a good idea. The problem, I think -- and this is why I think it would be good to have hearings and discuss this carefully -- the problem is to feel that for your plowback you are getting at least a pretty good amount of extra investment.

Now, I think you can fairly argue with the prices that are in prospect in this industry, that those prices by themselves are going to encourage a lot of investment and exploration. Now, you can justify the plowback anyway on the grounds that we need to have the money flowing in, the money available, but I think that it will sit a lot better if we see that the plowback feature gives you something extra in the picture and doesn't just give people money back to do what they would have done anyway.

I think that is kind of the problem, the design problem, and that is something that needs work.

Q Was it that the Administration wasn't sure on how to phrase that to accomplish that goal and wanted to let Congress do it, or what was the reason for not actually incorporating it?

SECRETARY SHULTZ: Well, we have worked at it and we recommend that this get very serious consideration. We think the problem that I have expressed is a real problem and we have some thoughts about how to work with it, but it is the sort of thing that I think comes forward well in the kind of hearings and discussions that the Ways and Means Committee and the Finance Committee hold on matters of this kind.

Q Mr. Shultz, if the law were in effect at this moment, how much money would be generated for plowing back, whatever form it takes?

MORE

328

SECRETARY SHULTZ: Of course, the old oil base price that we have at this moment would mean that all of that flow would not be affected, because that base is established.

Now, if and when that price is raised, it moves the price actually collected above the base by whatever amount it is moved and these rates come into play. As far as the so-called new oil and the stripper oil, now those prices right now are in the range of $7.00 or so as spot prices and it is hard to know just what the average is. Since the base on which those numbers are figured is probably on the order of $4.20, or something of that kind, if you have a $7.00 price, then your marginal increments are well into this 85 percent tax bracket.

So, if this were in effect today, the revenues from some of those prices would be taxed at an 85 percent rate right now.

Q Secretary Shultz, does this tax proposal preclude future tax proposals which you may make as to the taxes on the prices the consumers pay now?

SECRETARY SHULTZ: No, it doesn't. This is not a proposal to deal with all the problems of the world, this is a proposal to deal with a particular problem that the President felt is important and there may or may not be additional proposals. This doesn't preclude them.

Q Mr. Secretary, does the trust fund idea concept include also perhaps mass transit? Is it a wide concept or a narrow concept?

SECRETARY SHULTZ: As we have phrased it here, and again, we put this forward as an idea we think is very much worthy of consideration. It was directed mainly at the development of new energy sources but we also see in this the objective of conservation as something that research and development could be done on. I wouldn't see this fund as a source of providing, let's say, mass transit, helping people provide it, but it might be a source of researching out ideas on how it could better be provided. I would make that distinction.

Q Mr. Secretary, who would be eligible to apply for funds from the trust fund? Would it be for the benefit of industry? Who would be the recipients?

SECRETARY SHULTZ: The way it would work, as we have constructed it here -- and again, this is the sort of thing I think comes well out of hearings and discussions and would be developed and enriched by that process -- but as we have put it forward here, the money comes into a trust fund and that is simply an administrative device by which the Secretary of the Treasury invests the money and holds these funds.

But the funds are then turned over to a bank. It is a Government bank, so to speak, that makes loans and it has discretion about the terms of the loans and the kinds of risk it is willing to take.

There is no point for an organization of this kind to be making loans and working in areas where you have perfect commercial feasibility. There would be no point to that, so they would be trying to stimulate things that are longer-range in nature, maybe a little of both, or risky, perhaps to some extent, in the conservation area as well as the development area, things of that kind.

Q Mr. Shultz, there have been reports that gas consumption has increased rather alarmingly in recent days and weeks. I wonder, from your vantage point, if you would discuss the possibilities now of rationing and rationing soon?

SECRETARY SHULTZ: I am glad to say that you have Bill Simon around to answer questions like that. I don't know where he escaped to, but I understand he will brief tomorrow morning and that is a good question to ask him.

But I would say this: My impression is that your statement, your presumed statement of fact is not right, that the responses to the request for conservation, driving slower and so on, have been quite impressive and that we have done well, the American people have done very well on that.

Q Has the estimate of the shortfall gone down again since last week?

SECRETARY SHULTZ: That again, I would rather have you wait for Mr. Simon and put that question to him.

Q It was suggested a few moments ago it would help if we could get that clarified.

SECRETARY SHULTZ: They are making a report now in the energy meeting on just that subject. Obviously, I am not there. I had an early peek but I may not have it straight in my mind, so I think it is better to get it from a more authoritative source.

Q Does the imposition or the proposal of this sort of tax today imply that the Administration is planning to provide for the allocation of fuel mostly on the price side rather than through an excise tax or rationing?

SECRETARY SHULTZ: All this does is put into place a tax system, if it is enacted, that would assure us that if prices go way up, then at the relatively high prices for the period of time that a windfall would be in effect, the rate of taxation would be extremely high, 85 percent.

329

Q Do you have any idea, Mr. Secretary, how much tax revenues would be generated?

SECRETARY SHULTZ: Obviously, it depends on the prices that are there and people's estimates of what may happen vary. But probably something on the order of $3 to $5 billion in the first year, something like that.

Q And more later?

Q Mr. Secretary, how does the Administration view the compromise emergency energy bill as it is shaping up in the committee?

SECRETARY SHULTZ: Again, I think it is best to ask the people who have been working closely with that. I haven't. I have observed the provision in that bill on excess profits taxes, I have not studied it in great detail, but in enough detail to convince me that it is not a very good idea the way they have done it and we would very much like to see them tomorrow look at this idea.

As a matter of fact, I think, myself, having worked through some of these things with the Ways and Means Committee and the Finance Committee, that the process of hearings on taxes is very important because it is an extremely tricky subject and you never know quite what you have got until it has been turned over and around and examined and so on.

Q Does that indicate that the President could veto the bill if it does contain this excess?

SECRETARY SHULTZ: I really think that it is best for someone who has been working more closely to that bill than I to answer that question.

Q Could we get Mr. Simon out?

SECRETARY SHULTZ: He is in a meeting in the Cabinet Room trying to talk to his colleagues about the energy situation and as I said, he will brief tomorrow and you can ask him those questions.

Q Mr. Secretary, you seem to be saying that you think that this windfall profit tax will not inhibit a very substantial rise in crude oil prices and downstream prices and part B, it will recapture some of that, take it away from equity from the crude oil producers and in equity return it to the public. Is that your general philosophy of this tax?

SECRETARY SHULTZ: That is what this tax would do if those prices do rise and some of them, the prices that have been freed, as you know, by act of Congress, the output of relatively small, so-called stripper wells has been freed and as a device to encourage supply, so-called new oil has been freed and those prices have risen in the market

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already to a level, say, $3.00 or so, above the old oil base price.

And we have all seen the bids that have been made on some oil that has been put up for bid abroad, the world price is way above our price.

Q Mr. Secretary, you used the figure $3 to $5 billion in revenues the first year.

SECRETARY SHULTZ: That is a very horseback kind of thing and it is extremely difficult to estimate it because it all depends upon what the prices are. We don't know what they are going to be.

Q Did you include in that estimate the assumption that it would only be based on the new oil and the stripper wells or on some increase in the old oil as well?

SECRETARY SHULTZ: Well, it is a combination of things and I think probably as a matter of analysis, there is a relationship, that is, with a given market situation, the higher the level of the control price, the less high, in a sense, the free prices will tend to go because you are concentrating, when the control price is very low, you are concentrating more and more of, in a sense, the shortage on a relatively small proportion of the total available supply and that tends to send the price way up so that you get an averaging process and probably the average will be higher, the higher the controlled price is, but it isn't going to be so on a one-for-one basis.

MORE

330

Q Secretary Shultz, as a non-expert I am having a little trouble understanding one aspect of this. Could you discuss what impact, if any, this tax will have on prices that will be paid by consumers?

SECRETARY SHULTZ: Well, this tax is designed so that it will not have an impact on the prices paid by consumers at all. It is designed to hit into what we have defined as windfall profits. That is what it takes.

Now the reason for having the process by which the tax gradually phases itself out is that if you take a tax like this and you leave it in effect forever and supplies come on the market and the free market tends to settle out somewhere, all that will happen is that the tax for the most part will be laid upon top of the price and the consumers will have to pay it.

So, we have a relatively short space of time here when we have had this big jump in prices where a windfall tax approach of this kind will get at the windfall profits. But, if you leave it in effect too long, it will tend to reverse itself.

Q Mr. Shultz, can you tell us, another simple question here, the approach here, the assumption seems to be that windfall profits are sort of an unavoidable condition like a snowfall and now you have got an elaborate device here to cope with them. The assumption seems to be you could never have done anything much about them to forestall them. Was there any way that you see that you could have forestalled them by, say, sending these provisions up in the original energy act that went to the Hill?

SECRETARY SHULTZ: It is important to let there be a price established sooner or later that will cover the cost of finding energy that is of a higher cost sort than we now have. If we keep the price way down indefinitely, then sources of energy that cost more than that price will never be sought and no one will invest in them.

So, if we want to get at those things, which we do, then we have to let that price rise.

Now, if you do that, as is happening in the case of the stripper oil and the new oil, you determine an immediate price increase which undoubtedly has some impact on increasing the supply, but not great. And the people who happen to have that oil gain a windfall because of that high price.

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Now it is that windfall that may occur in the cases of the new oil and the stripper oil or may occur if the control price rises up into these areas -- as sooner or later it must -- that this gets at for a period of time. But it also gets itself out of the way for just the reasons brought out in your question, that if you don't do that, it winds up not as a tax on windfall profits, but an additional tax on consumers.

Q Why didn't you do this sooner?

SECRETARY SHULTZ: Well, we have all been working at the subject of energy and we have been trying to figure out a good way to get at this problem. We have been through I don't know how many cycles of proposals that we looked at and decided weren't so good after all and we have finally settled on this one and we have brought it forth here as soon as the President was comfortable with it.

Q Mr. Secretary, the logic of your own analysis of the role of prices and the logic of this proposal would both seem to point to a determination to release controls on crude oil and product prices. Now could you give us a fairly clear statement of your intentions in that area?

SECRETARY SHULTZ: Insofar as the Cost of Living Council is concerned, we have a structure of controls that describes the way in which cost increases can be passed through from the level of crude on.

There is no intention that I know of to make any change in that structure of control, but rather to keep it and monitor it and enforce it.

Now, as far as the price of crude is concerned, first of all, the Congress has freed the stripper wells. Second, back some months ago, as a matter of policy to encourage supply, we freed the new oil, so we see these prices.

Now we have said in our regulations that were issued, I think this August, and at which time the controlled price of crude was increased, I think 35 cents, that that situation would be kept under constant review and we expected from time to time to take action.

I think those of you who follow this subject will want to get yourselves over to the Cost of Living Council office because John Dunlop is announcing an action. This is a step, it is like all the other things that we have done. We try to work at the stabilization problem on a day to day, week to week basis, and not according to some long-term schedule.

MORE

331

Q Mr. Secretary, can you explain how this affects the depletion allowance?

SECRETARY SHULTZ: The depletion allowance is taken into account in the way in which the tax is computed. If you look on page seven of the Treasury description, you will see that you cannot take your depletion until after you have deducted the tax. So it specifies this relatively strict way of computing the depletion. But that is just a way in which you factor in the existence of the depletion allowance and show how it should be handled, given this tax.

Q Mr. Secretary, you don't think this new tax will actually discourage the initiative that the independents and smaller producers have taken in the past few months to increase production, do you?

SECRETARY SHULTZ: We don't see why it should. They are able to get a very good rate of return. The tax does not become gigantic until you get to levels of price above base that are quite high and furthermore, the whole= design of the tax is to move it out of the picture as the really major investment effort which takes one, two, three years to pay off at best, start to mature and you start getting products from them.

Q Is that the time frame, then? It might move out of the picture in about three years?

SECRETARY SHULTZ: Well, this tax would move the base tax rate up to the $7 level by the time 36 months had passed. So, if it turns out to be so, that that is a reasonable estimate of the long-term supply price, and it may or may not be, then there would be encouragement to do things on that time schedule. But we are not saying that is the time schedule.

THE PRESS: Thank you.

MR. WARREN: Thank you very much, Mr. Secretary.

The Cost of Living Council has announced that they will have a briefing at 4:00 p.m. this afternoon in Room 2105 in the Cost of Living Council.

END (AT 3:42 P.M. EST)

332

FEDERAL ENERGY OFFICE
4001 New Executive Office Building
Washington, D. C. 20461
Telephone: 395-3537

PRESS CONFERENCE
2108 New Executive Office Building
December 20, 1973, 10:00 A.M.

WILLIAM E. SIMON, ADMINISTRATOR

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E-73-31

332

VOICE: Good morning, ladies and gentlemen.

To start our second press conference for the Federal Energy Office, I would like to throw out one ground rule: We will have an embargo on the press conference until it is completed. So please stay with us until the press conference is completed.

At this time I introduce the Administrator of the Federal Energy Office, William Simon, for a few remarks.

MR. SIMON: Good morning, gentlemen.

I guess I ought to say -- are these things on, Robert? Can you hear me all right in the back of the room? You had better turn them on or up.

VOICE: There is no PA system.

MR. SIMON: Who am I talking to? Antarctica? Wake Island? That's very useful. It looks good on television, I guess.

I guess I ought to say merry Christmas from the Grinch.

But I want to just at the outset say something that is obvious, and perhaps apparent, to you people, certainly, that the attitudes of the American people are really molded by what is presented by you people from the newspapers, the magazines and the media. And my staff, as well as my availability to the press and all media, to supply up-to-date, consistent, accurate information regarding the energy problem is guaranteed, in order to assure you that you have all the tools necessary to do the job of such a critical job of reporting, as accurately as we can.

And I want to thank everybody in the media for the last three or four weeks' effort that has produced a better understanding on the part of the American people. And I mean this. I guess this is a little bit different line than you hear from some people around, but I mean it, and I thank you.

And you say how do I know this has worked? The proof of the pudding is found on page 31 of a newspaper this morning, and this, to me, was the most encouraging thing I have read in the last seemingly seven years since I took this job on.

This was a poll that I wish had been in the headlines of all the newspapers this morning or tomorrow morning, maybe. That poll finds that nearly 90 percent of the people in the United States back federal curbs on energy. And then this article goes on to be more definitive. It is a Gallop Poll, a nationwide survey of the people who want it even more stringent, people who are willing to get behind us and recognize the problem and, indeed, how we can lick this. And all I can say is, God bless the American people for responding in the patriotic fashion that I knew they were responding. But, as I say, this is the proof of the pudding.

The poll shows widespread compliance with what we are trying to do. It then goes on to say that a certain percent say they have lowered the temperatures in their homes and what percent is doing this and what percent is doing that.

So if you can find page 31 of the newspaper, maybe it will reach page 1 or 2 tomorrow, so that we can show the American people that this is working because they are trying.

I am also interested in something down toward the bottom of the article, which says that over half of the people are opposed to gasoline rationing, and that means, to put the thing into perspective, that surprises some people, I think.

Up until today, we have put into play a lot of measures that save a lot of barrels per day, and all the rest of it, and we have instituted the idea of let's not use the small electric heaters that are so inconsistent with what we are trying to do in the Energy Audit Committee and in industry, and we will be having a report on the industry thrust next week; eliminate all internal and external lighting -- and, remember, that doesn't go for Christmas trees, indoors only; urge everybody to be sensible; reduce the lighting in industrial and commercial establishments, this new Senate standard we talked about.

This, I want to emphasize, is probably one of the most important things we have undertaken so far, and we will mandate it as soon as we get the reaction from the Hill. This has a potential saving of about 800,000 barrels a day and, I believe, more than that. Enforcement is very difficult. It is going to have to be done on a local level. Just on the 800,000 barrels a day part of it, for New England alone, this will save them about 35 percent residual fuel oil. That is pretty significant. But we need the governors' help, the mayors' help, and I really believe we are going to get it.

Reducing the speed limit; the gasoline sales on Sunday; private and commercial ornamentation; advertising; lighting; reducing fuel use for general aviation. You know the whole thing. It is all in the kits that were passed out to you this morning.

In our conversations with some of the public utilities yesterday, we pointed out a little their responsibility not to mislead the American people. As a lot of these adds have said, "Maybe we are out of petroleum, but we've got plenty of electricity." I consider advertising like that irresponsible. I am anxious to see who prints the next add in the newspaper like that. Every study that has ever been done shows that using electricity is about three or four times worse than heating with fuel oil. And this is a fact. There is no dispute on this.

QUESTION: Whose ad was that?

MR. SIMON: There have been several in the newspapers. It is not confined to one place. I would say that they run in the 20s or 30s that we have been able to pull out in the last couple of weeks.

QUESTION: 20 or 30 utilities?

MR. SIMON: It is different people who are selling electricity, if you will.

Now, today, an additional conservation measure that we are instituting is that all service stations are going to limit gasoline sales to 10 gallons per car. We are going to ask the citizens of this country, if they will fill up once a week, hopefully, with their 10 gallons, that they will make it last all week.

Now you recognize that that is difficult for some people that live in Los Angeles. There are a lot of people who live in Los Angeles who do not have a mass-transit system, and they have to drive to work. That is a problem that they can surmount by car pooling. And this poll shows car pooling up 7 percent. We got to an average of 1.2 passengers in automobiles in this country. If we could get to a 50-percent reduction in gasoline, it would be significant. That means if people would just go 50, and all that, and just get up to almost two people per car, it would take care of this problem. We are going in that direction right now, if these people, the American people, comply with this 10 gallons on the average. I recognize that it is difficult for some to hold down to that, but it is easier for others to cut down to less than that, to maybe five gallons a week, and, if so, we will not need gas rationing.

QUESTION: Mr. Simon, you said you would make the decision on rationing before the end of the year. Now, you are instituting a program two weeks before the end of the year. Does this mean you are going to push your decision back a bit?

MR. SIMON: It most certainly does not. I will be making the recommendation to the President within the next week. I will have an announcement to you before the end of the year.

QUESTION: Isn't the implication of that that there will be no gasoline rationing?

MR. SIMON: This is an additional conservation measure. Before we announced it, I wanted to get together with all the affected industries, which is the only responsible way to do anything, with the representatives of the independent gasoline stations, to see whether they could live with this, whether this is something practical, who are we damaging by instituting these things. We don't just dream up these things of how much we can save and then put them in. I think the only responsible way to do anything in this area and to get the quality we are trying to put forth in this program is to talk to people beforehand.

QUESTION: Will there be a feedback on this 10-gallon limit that won't be plugged into the decision on rationing?

MR. SIMON: I am not saying that this one decision will be the determining factor as to whether we will implement gasoline rationing.

QUESTION: Will it be a factor at all?

MR. SIMON: I would say that the results will be inconclusive. My reason for pointing it out is that this alone would take care of our short handling. 1,200,000 barrels a day. Just that alone would --

QUESTION: Didn't I hear you say a moment ago that if this works, we will not need gasoline rationing?

MR. SIMON: I said if we could get total compliance in this one area, that gasoline rationing would not be needed.

QUESTION: Could you clarify the rationing question? You said you are going to decide on a rationing plan. If you decide before December 31 that rationing is needed, you said the plan could not become operative before March 1 at the earliest. You left out the question of whether, sometime between December 31 and March 1, that you might change your mind; you might have a plan, but you might decide not to implement it if Arab oil is resumed or conservation measures are according to your hopes.

Now would you clarify that, please?

MR. SIMON: Sure, I will try, Mr. Shore.

Basically, when Senator Jackson asked me -- which is when I made that response -- Senator Jackson asked me, with respect to gasoline rationing, when we made the decision, how long would it take to implement. My response was that it would depend upon the program, the kind of program put into operation, would it be the World War II priority program, the ABC-type sticker, or a system that would have transferable coupons, et cetera?

One of the keys to effective gasoline rationing is the physical presenting of the tickets and the transferrence of these tickets. And I responded that it would be within a 60-day period before we could put the sytem into operation, depending on the type of system. I believe we could implement certain types of systems a little speedier.

In our studies to determine if it is needed, we study this, believe me, exhaustively.

QUESTION: The question is whether you are leaving yourself the option of changing your mind during the interval between the decision to go ahead with the plan and the actual implementation.

MR. SIMON: That will be part of our announcement next week. But it seems quite obvious to me that, upon the announcement, if that is what was to be announced -- the announcement of the system -- if circumstances changed dramatically, we would also have that option. I would assume that was understood.

QUESTION: Do you anticipate that you could tell whether you have complete compliance with this 10-gallon edict within a week?

MR. SIMON: No ma'am. That would not be a determining factor. This is something we have been looking at for the last couple of weeks. We wanted to meet with the independent marketers to see if this was practical, and why. Before we put any rigidity into the operation, it couldn't be complied with, for one reason or another, obviously.

QUESTION: Mr. Simon, how long does it take, generally speaking, to get meaningful national-feedback figures on a thing like this. You make an appeal, and how long is it before you find out whether it is working?

MR. SIMON: I would say about a month.

Let me point out what this does. One of our biggest gas users is a person who travels weekends. Now we have closed stations on Sunday, but they can still buy a tank full on Saturday night to get them through the weekend. He can go do his thing and get a late tank Saturday. If a person is driving from New York City to Montauk every weekend, which I guess -- I don't know how many people do -- if he is going to have to stop three or four times on the way to fill up with 10 gallons, I think that is a discouraging thing to him, particularly if there are cars in front of him, holding up the trip.

That is what we are trying to do. Also, we are trying to get the feeling out there that, "We've got 10 gallons a week. Let's all try to live on this. If we all work together, we won't have to have this imposed."

QUESTION: Why have not imports dropped, as we predicted, and why is domestic production down?

MR. SIMON: Domestic production is only down 100,000 barrels a day, which is pretty insignificant, as far as total imports. Also, you will remember in the former press conferences, in talking about the variables and whether it was a variable, I can't predict the level of imports, within the best of my ability of assessing where we get our crude. We assess the extent of the shortfall.

Now it is predictable that there will be some leakage, because oil is a fungible, tradable commodity, and I have really no answer as to the level of imports there. Obviously, 700,000 barrels a day above predictions --

QUESTION: Do you have any idea where this is coming from, and if not, when do you expect to have an idea where the oil is coming from?

MR. SIMON: There again, where you can go through transshipments and second and third parties before it arrives here, this part was predictable. We can't predict what the leakage will be at a given level.

338

QUESTION: In connection with that, what has happened with that legislation that was proposed to force the oil companies to provide information to the office?

MR. SIMON: Well, we are going to, if needed -- I assume we will need some specifics to present to the Congress on our proposal for any additional assistance we need to get all the information from the oil companies, major companies, minor companies, independent jobbers, marketers, et cetera.

QUESTION: Is it your understanding or knowledge that the government of Saudi Arabia has determined that it is willing to go back to the September levels of production fiarly soon and beyond that 20 million barrels a day?

MR. SIMON: I do not have that impression at all. I have read that in the newspaper. I have not seen Secretary Kissinger yet.

QUESTION: You seem to be saying two different things. You say if this works, we won't need rationing. On the other hand, you say in a week you will have an announcement about rationing, and you say --

MR. SIMON: I don't think that is saying two different things. I am saying two things. I am saying that this is an example, the 10 gallons a week, of what the American people would have to do to take care of our gasoline shortfall. Number two, I am not going to wait until I have the results of this, because it would be too long, before making a decision on gasoline rationing. This is just another conservation measure.

QUESTION: You are limiting buying to 10 gallons, and you are allowing a price rise in crude. Are you going to allow gasoline retailers a greater margin of profit to make up for decreased allowance?

MR. SIMON: This is presently being studied by the Cost of Living Council. John Dunlop announced that there would be periodic adjustments in the price of crude, because the worst thing we could possibly do in the long-term bringing in of additiona supplies, would be to keep the price artificially low where it is uneconomical to the industrial or oil interests in this country.

What should be understood is that a rise in the crude oil and what it means in the case of the 10 gallons is about 2-1/2 cents, and the Cost of Living Council will deal with this price increase, and they are studying the profit-margin limitation.

QUESTION: When do you expect a decision on that?

MR. SIMON: That you would have to ask Mr. Dunlop.

QUESTION: On the 10-gallon limit, how do business users and travelling salesmen identify that it will be necessary for them to go higher than the limit?

MR. SIMON: This limit will apply to everyone. There is no identity necessary. If he is required to use

20 gallons, he can go to the next gas station and buy another 10 gallons.

QUESTION: Mr. Simon, is the 10-gallon mandate being implemented now?

MR. SIMON: I would say that to mandate most of the things we have put into place, we would need the energy legislation. However, this poll that I have referred to a couple of times this morning shows me that what we have asked the American people to do is being done, even though we need all this power to absolutely enforce it. And if you will think about it for a moment, the enforcement is mind boggling.

QUESTION: Concerning that legislation -- the threat of a Presidential veto because of certain amendments is being interpreted as a bluff -- would it be dependent upon whether the President would consider vetoing this bill?

MR. SIMON: I would have hoped that I could have come to the press conference and given you an up-to-date report on the energy legislation. I was up until very late, as most of you know, late last night, because of what has been transpiring on the Hill. I am going to a meeting at 10:30 this morning, and at that time I will be able to know what we are talking about. But the President obviously reserves the right to veto any bill, and there are problem areas in this that I outlined to you last week in the conservation area where the Congress would have veto power itself. We are trying to work these things out.

QUESTION: During the holiday season we are having trouble with planes, there are less airplane seats; yet, the President is going to Florida, and the Vice President is flying, presumably by government plane, to ski in Colorado. Do you think they are setting good examples for people?

MR. SIMON: The President is taking the train to Florida. Has that been changed? If he isn't, that was the last word I got. Now, as you well know -- I would ask you to ask Jerry Warren and Jerry Ford about their travel plans, because I, frankly, am not aware of this. But, let's face it, fellows, there are tremendous security problems involved when it comes to the President and the Vice President, and we ought to think very carefully before we think they are very ordinary citizens in this world.

QUESTION: I wanted to ask about the utilities' plans to pool their resources. How is that going to work? Will that be required? And will there be a sifting from one region to another of the country?

MR. SIMON: Well, we had them in yesterday and talked to them. I don't think we are going to have to require it. It is going to be a cooperative effort. The utilities most certainly got our message.

QUESTION: According to my calculations, an average

car gets about 13.5 miles to a gallon. Is that right?

MR. SIMON: I thought it was around 12.

QUESTION: Do you know what the average car goes in a year in the United States and what this cutback would be at 10 gallons?

MR. SIMON: We had those figures in one of my charts yesterday that Arthur Hughes presented, where it showed -- the average we had shows figures which I would supply to you, Bob. We will put them in your press package. We have got it by income; they travel so much in their automobile and spend so much; et cetera. I will make sure it is in your press briefing next week.

QUESTION: What is the level of gasoline consumption you are looking for? What is the target? How far down does the consumption of gasoline have to go -- what would the figure be -- before rationing is not necessary?

MR. SIMON: I think there is a combination of factors involved if we are dealing with a certain shortfall. The real question is at what point does the government responsibly institute a program that has become such an outrage and an inconvenience for the American people because they have to wait for two hours in line to get their 10 gallons of gasoline?

QUESTION: Would you be more or less likely to get compliance on gasoline conservation if you announced now that rationing will be put into effect for certain?

MR. SIMON: I didn't hear the first part of your question.

QUESTION: Would you be more or less likely to get compliance on a voluntary basis if you announced today that if by a certain day this has not been achieved, there will be rationing?

MR. SIMON: We did not hold up this announcement. We looked at it for a couple of weeks and then met with the people, and we didn't feel that it should wait until we had a rationing or no-rationing announcement next week. That is your guess as good as mine.

QUESTION: I understood you to say that you expect the American people will respond; yet, your own figures show that the demand increase will be almost back up to a normal level in the first week of December.

MR. SIMON: Let me tell you, that is a question I was asked last week, on the demand side of it. As you know, you are going to get unexplained aberrations in the demand. Week by week, I couldn't really tell you why it went up or down. After all, we are looking at the total barrels, not only the components. We will look at the period since November 10, and next week, when we give you the petroleum situation report, we will have a revised estimate.

QUESTION: Mr. Simon, these figures reflect, to some extent, the first figures on the ban of the Sunday gasoline. Is that right?

MR. SIMON: It would, yes.

QUESTION: The ban goes into effect the first week in December. Therefore, the figures would reflect that.

MR. SIMON: Just a little bit, yes.

QUESTION: What steps are being considered as far as restoration of some of the fuel to the domestic airlines that have been cut back under the allocation program? And could you comment on the Transportation Secretary's proposal to use a largely gasoline-derived naptha jet fuel to supplement the gasoline shortfall, and would this divert further gasoline for auto driving?

MR. SIMON: We have been meeting with the airlines, as you all know. We have met with Pan American, and we are meeting with the domestic airlines this week to find out what their particular problems are, and I will announce next week how we intend to solve them. Obviously, the naptha-base fuel is an answer, and the switch to crackers can be done quite easily.

QUESTION: Mr. Simon, the increase in the required price of domestic crude and other steps you have taken with a view toward increasing production and making exploration more attractive, both of those developments may take months or even years. There is also a time lag in windfall profits, tax in particular, before that goes into effect. What do you have to say to the criticism in some quarters that, in the meantime, the profit margins of oil companies are likely to amount to a ripoff before any of this goes into effect?

MR. SIMON: You have to put all these numbers into perspective, and when we talk about a ripoff, if you will, where the profits of the major companies are up 85 percent, 150 percent from '72 to '73, which is the traditional comparison, then you begin to look at a longer period of time. We can't look at a week, but when you look at longer periods of time, you begin to investigate, and you find out that the average net return of the major oil companies during the period of the mid-'60s was in the area of 8-1/2 percent return on invested capital. You compare that with the manufacturing companies, and their return was over 11 percent. So, over a period of time, that is not extraordinary.

But that doesn't mean because we put this out yesterday, that we don't have to deal with it. And we intend to deal with it and take this great big bulling caused by the shortage and make sure, if that is what the Congress wishes to do, that it goes into an interest trust fund to be put back in the operation. We intend to deal with this, and no people are going to be able to profit, corporations or individuals, at the expense of the American people, because these prices are going up due to demand exceeding supplies.

When we talk about the oil companies, a good portion of their profits come from foreign products. Also, 70 percent of the wells drilled here in this country are drilled by independent producers.

QUESTION: Mr. Simon, may we return to the question of the country's mass travel plans and those of the President and Vice President? You answered the question by referring to the security problems that we all know about, but I think the heart of the question is this: Wouldn't the President and Vice President make a better contribution to your energy-conservation program if they set an example by staying home, here in Washington, this Christmas?

MR. SIMON: I would call the answer to that question a "no win."

(Laughter.)

Do I want to go back to New Jersey even sooner than I thought I would?

QUESTION: Have you made any decision on this proposal to bring 200 oil-firm executives into your program to run it?

MR. SIMON: Right at present, we are blocked. Now this was before I came on board, but 30 of them arrived to start work on this complex problem of allocation, primarily to find out all the nitty-gritty of whether our regulations on paper were indeed practical for the industry, and when they were shown the Justice Departments legal requirements, they turned around and went home.

I am stymied on this right now. I am working with the Congress and talking to them, not about 250 people, but about bringing specific people into our organization. At the policy level, we are pretty will filled up. We need experienced people. We are dealing with a complex subject, and we could use their experience and expertise. Right now, I would say the response of Congress is inconclusive, but I want to make sure I touch base with everybody before there are any accusations that this is going to be an oil-dominated organization. I am not from the oil industry, but I could certainly use the expertise of it.

QUESTION: Does this increase in consumption in the last petroleum report, despite the fact that part of that was in the first Sunday of gasoline-station closing, indicate to you a lagging in the conservation effort, or even that the conservation effort is counterproductive, by people going out and getting all the gas they can before Sunday closing?

MR. SIMON: If you look at the increase in consumption in gasoline, as I said before, it is unexplanable. I don't know the reason why the gasoline demand, the reason why the distillate fuel oil demand became 14.2 percent. If the trend continues, we are looking for a 5-percent overall reduction. We have to keep this percentage rising, and I

343

believe we are going to be able to.

QUESTION: Last week, when it went down 15 percent, you said it was because people were cooperating.

MR. SIMON: I would say they very definitely are cooperating. You might think, in the case of some people, this could be an explanation. I am not saying it is, but people could say, "If we are going to get gasoline rationing, let's make sure the tanks of our cars are going to be full all the time." If, as in former years, the average car travelled around the roads with 3/8 of a tank of gas, that is a significant amount of what you might call rolling storage. That could account for part of this unexplained reason.

I hear these accusations, but I really don't have any way to get a handle on individual hoarding, if you will. We have encouraged the people and tried to show them how dangerous it is to hoard five-gallon gas cans in their garages or the trunks of their cars.

QUESTION: You just quoted figures five years old in computing the plan for windfall profits and taxes. What estimates do you have on projected industry profits for, say, as recently as the last two quarters of this calendar year, or even earlier, and the one or two calendar quarters upcoming in '74?

MR. SIMON: We feel that the major problem in the windfall-profit area was in the price of crude oil. Because of the foreign operations of these companies, the profits are going to decline, obviously, fairly drastically, because of the embargo. As to these figures, the technical staff can answer those questions. If crude oil is the problem -- and, as I understand, we know that the independent producers drill about 70 percent of these wells -- we had to get at this major windfall area first. With crude, it was controlled at 4-1/4, and the Cost of Living Council allowed 5-1/4 for the dripper wells, which is any well which produces less than 10 barrels of oil a day.

Well, for this artificial jump, which it will be if we are allowed to use Iranian oil -- the last sail was $17.50. That is what I would consider an emotional price. We believe that the long-term price-supply factor for crude oil is somewhere around the $7.50 area, which has an implication of a reasonable profit for drilling and what all the national sources of supply will cost to produce. This is the oil shale, which people say is in the $6.57 area, as well as nuclear energy, et cetera.

This is what the long-term picture is. By long term, I mean it will be 10 or 15 years before we get a sufficiency of all national sources of supply.

QUESTION: Why didn't the American oil companies buy the oil from Iran at this cheap price as suggested by Iranian officials a couple of nights ago?

MR. SIMON: I am not familiar with those comments or the offer to take on this per se cheap oil. I know that Ashland Oil entered into an agreement for their expanded refinery needs with Iran. I don't know that it was per se cheap oil.

QUESTION: He said flatly that in early October they made a large offer at, I think, $4.00 a barrel, and, unaccountably, the American oil companies did not buy that oil; and that was well into the time of the oil shortage.

MR. SIMON: I am certainly not aware of that. I missed that show. I don't see much TV these days.

QUESTION: Are you planning to fly in a special plane or drive a limousine to New Jersey for the holidays?

MR. SIMON: I am almost tempted to answer what holidays?

No, I do not fly in private planes. I fly commercially, just as you fellows do, when I go back home. I am not going home for the holidays. My family and I are now residing in Washington, and we are staying here for the holidays.

QUESTION: The implication of this proposal behind you is that no Americans could travel anywhere for recreation, period, unless they could do it on 10 gallons of gas a week. Could you comment on how Americans should travel in their cars?

MR. SIMON: The implication is that I am asking the American people -- it is not an implication, it is explicit. I am asking them to please let the 10 gallons they get last them for a week. They can use it any way they want to. They can recreate with it or drive to work or do car pooling, or all the other things. All I am asking them to do is to stay within this 10 gallons.

QUESTION: When you get the power to impose this on the people, then that will become a fact. Recreation will be about out.

MR. SIMON: Mr. Shore, the power to do this, if you will, is really the power to limit the gasoline-station operator, to make sure he will not sell more than 10 gallons to any person at all, but this person will still have the ability to go to the next gas station and get another 10 gallons, if that is his want. I would certainly hope that he wouldn't do that.

(Whereupon, at 10:40 a.m., the press conference was concluded.)

345

FACT SHEET December 27, 1973

GASOLINE COUPON RATIONING

INTRODUCTION

The system described in this fact sheet is a summation of planning done to date for the rationing contingency. A full description of the system will be published for comment in the Federal Register in two weeks.

GASOLINE CONSUMPTION AND DISTRIBUTION

67% of the gasoline in this country is sold for use in private vehicles; 30% of it goes for business and commercial use; with the remaining 3% sold to state, local and Federal government units.

Gasoline is distributed in two ways: bulk and retail. The bulk market serves those who buy gasoline in large quantities and have their own storage tanks. This includes agricultural and industrial users, commercial vehicle fleets, etc. The supplier provides the gasoline on a contract basis and maintains sales records for each bulk customer. Commercial bulk sales are approximately 16% of total sales with bulk sales to federal, state and local government units estimated at an additional 3%.

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Gasoline is also sold in bulk to retail outlets, which in turn, serve individual customers, primarily personal cars and some commercial operations. Records of sales to individual customers are not generally kept by retailers on any systematic basis. Retail sales of gasoline for commercial use are about 14% of total sales; retail sales for private use are 67% of the total.

All purchases of gasoline at retail outlets will be made through the rationing system. All those who purchase gasoline in bulk, as defined in the proposed mandatory allocation regulations, will obtain their supplies according to priorities set in the allocation system. No coupons will be required for such bulk purchases.

COUPON PRODUCTION

Gasoline coupons will be printed by the Bureau of Engraving and Printing; they will be monochromatic, with the color changing every 30 days. They will be about a third the size of a dollar bill, and printed from line engraved plates using the intaglio process. These features are currently used in the production

346

of paper currency to limit counterfeiting. Space will be provided on each coupon for the user's signature and a license plate number.

Each coupon will be worth a certain number of gallons of gasoline. The gallons per coupon allowed for any month will be the same across the nation; however, the amount may be changed from month to month, depending on the availability of gasoline.

COUPON DISTRIBUTION

Coupons will be distributed to all Americans 18 years or older who hold valid drivers licenses. The number of coupons which each person receives each month will vary according to the population density of the area where he lives, a surrogate measure for average current needs. The average distribution will amount to 32-35 gallons per month per person. The distribution formula will be weighted to take into account such factors as the availability of mass transit facilities, the concentration of places of employment, and urban vs. rural differences in essential personal automobile usage.

Each person will be mailed an authorization card by the motor vehicle department within the State; this card will indicate driver's license number and current address, including ZIP code. It will also bear the name of the State in which it is issued, and may only be used within that State to pick up coupons. To receive his issue of gasoline coupons for the month, each person will present his authorization card and his driver's license at the distribution point; he will be charged $1.00 for his packet of coupons. Negotiations are under way to determine these points; banks and post offices are likely candidates. When the monthly coupons are picked up, the authorization card will be punched to indicate this. A record of the receipt of coupons will be kept. Military personnel may use an out-of-state authorization card, with evidence of local residence and a military identification card, to obtain coupons in their State of residence.

Since all gasoline sold at retail outlets must be accounted for by coupons, special arrangements will be made for commercial and other priority users who need additional coupons as part of normal business in order to bring them to parity with their counterparts who buy in bulk. Certification and validation procedures will be used for distributing the correct number of ration coupons to commercial and other priority users.

USE OF COUPONS

The coupon is an entitlement to buy gasoline, and gasoline cannot be sold unless the purchaser has valid coupons to give to the retail outlet. The station operator may only pump the quantity of gasoline fixed for each coupon, although several coupons may be used for one purchase. At the time of purchase, each driver will sign his name and license plate number on the coupon, thus preventing its reuse.

The coupons will be freely exchanged on the open market. A coupon will be good for 60 days. The market value of a coupon will depend on local supply and demand. The out-of-pocket cost for gasoline for individual purchasers will depend on the number of coupons used:

. consumers who limit their driving to the rationed amount will simply pay the gasoline price at the pump.

. those consumers buying less gasoline than their rationed amount will be paying the pump price. They will receive income from the sale of unused coupons.

. those consumers buying more gasoline than their rationed amount will be paying an extra amount for this consumption. The out-of-pocket cost for gasoline in excess of their ration will be the pump price plus the cost of the additional coupons bought on the local exchanges.

COUPON EXCHANGE

The buying and selling of coupons provides the means for determining priorities and needs in this system. Trading will be informal and market roles will quickly develop, with trading points

3/8

determined by local custom and the volume of gasoline business in the area.

The exchange of coupons introduces a limited free-market approach to rationing. This contrasts with the World War II system in which a large public bureaucracy was used to decide hundreds of thousands of questions about individual need for gasoline.

COLLECTION OF COUPONS

Negotiations are being held with banking institutions to provide accounting and supporting services. As currently envisioned, each retail outlet operator will collect the coupons for the quantity of gasoline sold and turn them in to his bank. Coupon receipts will be forwarded to the wholesale supplier to validate claims for specific quantities of gasoline. Banks will safeguard used coupons, store them for a certain period of time, and eventually dispose of them.

EXCEPTIONS

Each state will hold coupons representing up to 3% of the quantity of gasoline available in the state for each month. These coupons will be used by the state to provide relief in cases of exceptional hardship. Each state will decide whether to handle exceptions through a system of local boards or on a centralized basis.

ADMINISTRATIVE REQUIREMENTS

A transferable coupon system may have an administrative structure at three levels:

. Local . Local boards may be set up by the states to adjudicate appeals for variances to the Federal guidelines governing individual ration allotments. The local boards will have an emergency supply of coupons to meet special cases of unusual need, such as jurors required to appear in a court several hundred miles from their homes. Their size, composition, and location will be determined by the Governor, acting in accordance with Federal guidelines. The Federal government will finance one board per county or equivalent, although more may be set up by the State at its discretion.

. State . Overall management of the state allocation of gasoline will be the responsibility of the states. State boards will also be responsible for the management and control of local boards and for adjudicating appeals from local board decisions.

359

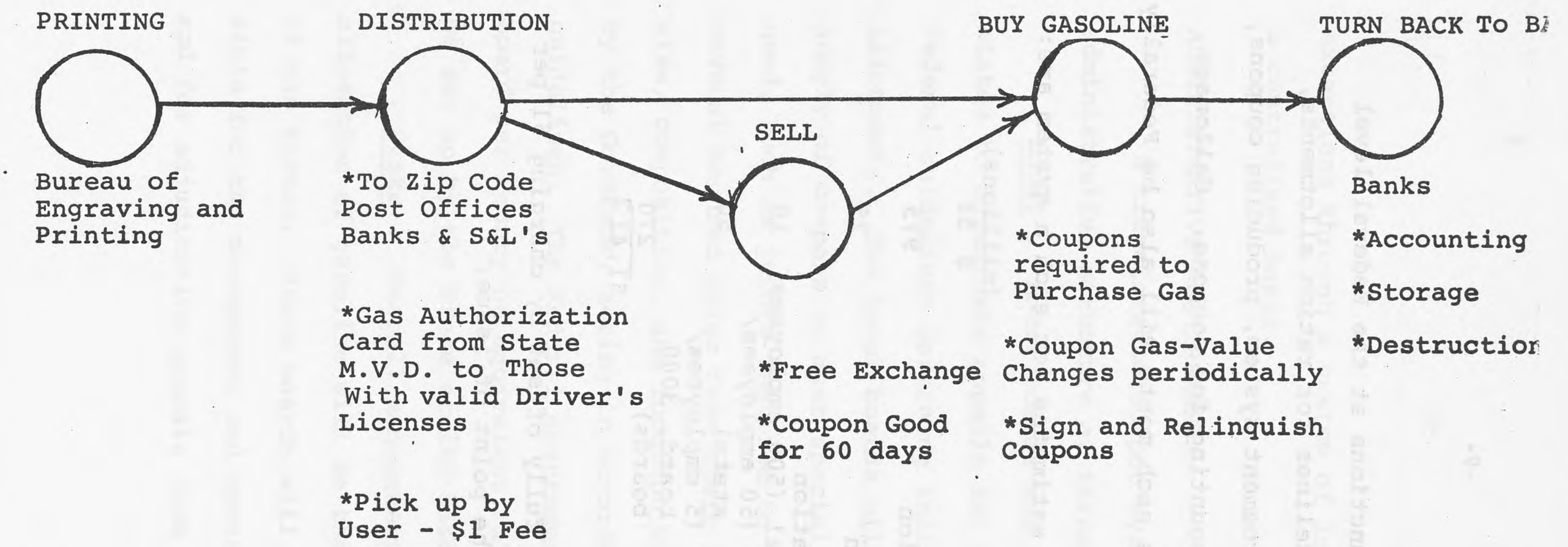
. <u>Federal</u> . Functions at the Federal level include setting guidelines for ration allotments, monitoring the enforcement system, producing coupons, and auditing and accounting for coupons. Gallonage valuation of coupons each month will also be Federally determined.

Annual cost estimates for such a system are:

	(millions)
Printing	$ 32
Distribution	975
Collection	75
Administration	
Federal (500 employees)	10
State (50 employees/ state)	50
Local (5 employees/ board, 3000 boards)	270
	$1,412

These costs will be fully offset by charging $1 per coupon packet at the point of issue.

GASOLINE COUPON FLOW



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350

FOR IMMEDIATE RELEASE DECEMBER 27, 1973

DOMESTIC AIRLINES GET INCREASED FUEL ALLOCATIONS

Federal Energy Office Administrator William E. Simon today announced that the improved petroleum forecast will allow him to increase domestic airline jet fuel allocations by ten percent above previously proposed allocations.

"Increases in imported oil and a reduced general demand for petroleum products will allow this additional shift of fuel to the airlines," Simon said. The new allocations will become effective immediately, under the Mandatory Fuel Allocation Act, and will permit:

1. Trunk airlines (major carriers) 95 percent of their 1972 base period use -- up from 85 percent;

2. Regional Carriers, 100 percent of their 1972 base period use -- up from 90 percent;

3. Air taxi service, 100 percent of their 1972 base period use -- up from 90 percent;

4. Business and executive service will remain at 80 percent of their 1972 base period use, as previously proposed; and

5. Personal and pleasure aviation allocations will also remain at 70 percent of their 1972 base period use, as originally proposed by the Federal Energy Office.

-FEO-

E-73-38

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357

FOR IMMEDIATE RELEASE DECEMBER 27, 1973

FINAL ALLOCATION REGULATIONS COVERING FIVE FUELS ANNOUNCED TODAY -- THREE OTHERS SCHEDULED BY JANAURY 11

William E. Simon, Administrator of the Federal Energy Office (FEO), announced that final regulations covering crude oil, residual oil, aviation fuel, petrochemical feedstocks, and other petroleum products are being sent to the Federal Register today, implementing the Emergency Petroleum Allocation Act of 1973.

Final rules covering propane, motor gasoline, and middle distillate fuels will be issued on or before January 11, 1974, as provided for in the Act.

Administrator Simon pointed out that the revised schedule for promulgating these programs was necessary in order to take into account the public's response to the proposed regulations which were issued for comment in the Federal Register on December 12.

"Despite working through the Christmas holiday, it was difficult to fully consider and incorporate all the responsible and constructive comments that we received from the public by the December 20 deadline," Simon said.

"Until the final rules on these products are sent to the Federal Register, the existing mandatory programs will be in effect," Simon said. (The mandatory program for propane became effective on October 3; the program on middle distillates went into effect on November 1.)

(more)

E-73-39

Simon explained that Section 4(f) (1) of the Emergency Petroleum Allocation Act allowed delay of the implementation of the motor gasoline program until January 11, and Section 4(f) (2) allowed the Federal Energy Office the option of allowing the existing mandatory programs to stay in force until January 11.

The crude oil, residual oil, aviation fuel, petrochemical feedstocks, and "other petroleum" products programs which are being sent to the Federal Register today as well as the program to be sent to the Federal Register on January 11 will be implemented on January 15. This will provide the time needed to print forms, design computer programs, and train personnel, thus ensuring that the program operates efficiently and effectively. The January 15th date will also coincide with the semi-monthly reporting period required in many of the programs.

352

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FOR IMMEDIATE RELEASE DECEMBER 27, 1973

FIVE ELECTRIC UTILITY PLANTS SWITCH FROM OIL TO COAL - OTHERS TO FOLLOW

William E. Simon, Administrator, Federal Energy Office (FEO), today announced that two major East Coast electric utilities have converted five generating plants from oil to coal, saving a total of 24,000 barrels of residual fuel oil per day. They are Atlantic City Electric Company's facilities at England and Deepwater, and Public Service Electric and Gas Company's facilities at Bergen, Burlington, and Seawaren, all in New Jersey. Other utilities are expected to follow suit as they identify coal supplies and complete other arrangements for conversion.

On December 7, Administator Simon sent telegrams to 19 utilities on the East Coast, urging them to convert 26 generating plants from fuel oil to coal. East Coast utilities are of particular importance because the fuel oil shortage is expected to have major impact in this area.

Some companies that received telegrams on December 7 report that they have problems converting to coal because of environmental restraints, inadequate coal supplies, and shortages of railroad hopper cars, barges, and equipment.

Administrator Simon said his staff is working with the utilities, environmental agencies, and coal industry to overcome coal conversion obstacles. "More conversions are possible," he said, "and we are urging the utilities to convert as soon as possible."

On December 9, forty additional utilities throughout the country were contacted by his office to determine their ability to convert some 60 generating plants from oil to coal. Responses from these utilities have been received by FEO and are now being analyzed.

Telegrams were sent yesterday to 56 additional utilities that operate plants having the capability of burning either coal or gas instead of oil. Among other inquiries, they were requested to report their potential reduction in oil consumption by converting to coal or gas, if such is feasible.

"We look to the utilities for a substantial reduction in residual fuel oil consumption," Simon explained, "and we are going to do everything we can to help them convert to other fuels wherever this can be done without creating environmental hazards or other problems, such as an exposure to potential shortages of adequate coal supplies."

-FEO-

353

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FOR IMMEDIATE RELEASE DECEMBER 27, 1973

ADMINISTRATOR SIMON MOBILIZES SHIPS FOR DIVERTING EMERGENCY OIL SUPPLIES TO NEW ENGLAND

William E. Simon, Administrator, Federal Energy Office (FEO), today announced the immediate diversion of emergency supplies of residual fuel oil to New England utilities whose fuel stocks have been depleted to less than a 27-day supply. He has ordered that fuel be diverted immediately to meet these needs. The fuel will be diverted from other areas of the country where stocks are now at high levels and where fuel is currently being allocated at 100 percent of current demand. The areas from which the fuel will be diverted and the companies involved are being withheld pending notification to the companies that will be required to provide this fuel.

In addition to ordering the emergency diversion, the Federal Energy Office has located sufficient maritime shipping capacity to move the 4.5 million barrels of oil that may be needed during the coming month.

As examples of the problem, Administrator Simon cited two New England electric generating plants at Salem and Brayton Point, Mass., that require emergency fuel oil supplies. Both plants are in the process of being converted to coal and the emergency oil supplies are required until the conversion is completed in late January.

(more)

E-73-41

The emergency diversion program will benefit all New England States and is an interim step that has been ordered to fill the gap until the complete allocation program becomes fully operational.

-FEO-

354

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FOR IMMEDIATE RELEASE DECEMBER 27, 1973

NEWSMEN PREVIEW ENERGY CONSERVATION COMMERCIALS

Newsmen today viewed two public service announcements produced for the Federal Energy Office. The commercials, promoting energy conservation, feature actor George C. Scott and football player Marv Flemming of the Miami Dolphins.

The Advertising Council has assured the Federal Energy Office up to $30 million worth of free television time for the commercials, which run 60, 30, and 10 seconds.

The premiere of the announcements will take place on national television, during the next few days, with special emphasis during the professional football championships, the Super Bowl and the Pro Bowl.

-FEO-

E-73-42

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355

STATEMENT BY WILLIAM E. SIMON, ADMINISTRATOR OF THE FEDERAL ENERGY OFFICE, IN SUPPORT OF NATIONAL CAMPAIGNS TO ENCOURAGE 25 PERCENT REDUCTION IN GASOLINE USAGE:

December 27, 1973

"Along with the tremendous conservation efforts being made by individual Americans across the country, I want to commend actions by two organizations that should help reduce gasoline consumption. Last week I called your attention to a nationwide campaign by the American Automobile Association to get drivers to reduce driving by 25 percent.

"Today, I am pleased to salute the U. S. Chamber of Commerce for its national campaign promoting a 25 percent cutback in gasoline usage. These efforts by the AAA and the Chamber are signs of the positive attitude taken by American businessmen toward the energy shortage.

"Such positive efforts will undoubtedly produce results and help ease the energy shortage. I urge other organizations to follow these examples of voluntary support of our fuel conservation efforts."

-FEO-

E-73-43

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356

FOR IMMEDIATE RELEASE DECEMBER 27, 1973

STUDENTS ASKED TO LIMIT DRIVING DURING FUEL SHORTAGE

Administrator William E. Simon, of the Federal Energy Office (FEO), today asked high school students to help ease the demand on gasoline supplies by walking, taking buses, or riding bicycles to school instead of driving. "The same students who responded so admirably to the environmental concerns in the past few years now have the opportunity to help relieve a related problem -- the energy crisis," he said.

Simon made the appeal as he announced a standby gasoline rationing system, which would provide gasoline tickets to all drivers over 18 years of age. At the same time, Simon called on school boards and principals to review their policies toward student driving. He suggested they adopt policies restricting the use of parking lots and limiting the numbers of pupils permitted to drive.

Before making the announcement, Simon was in touch with John R. Ottina, commissioner of education for the Department of Health, Education and Welfare. Ottina endorsed the voluntary plan and encouraged school boards to take whatever action they deem appropriate.

Simon, noting that the program is voluntary at this time, said that those students who do not have access to school buses or public transportation should continue to get to school in the normal way. He also exempted from the plan those students who need autos to get to and from jobs.

E-73-44

-FEO-

357

December 27, 1973

STATEMENT BY WILLIAM E. SIMON
ADMINISTRATOR, FEDERAL ENERGY OFFICE

LEGISLATIVE POWER NEEDED FOR ENERGY CRISIS

"Although I had hoped the Congress would pass some of the legislation we need to cope with the energy crisis before it adjourned last week, I am not discouraged by this delay. In fact, I am confident regarding the prospects of getting sound, workable legislation soon after Congress reconvenes on January 21.

"This delay might even be helpful to that end. Hastily drafted legislation -- with scores of amendments -- could have granted us immediate authority but also burdened us with some long-term handicaps. Furthermore, when the Senators and Representatives return to Washington next month, they will have the benefit of their constituents' thinking with respect to the energy crisis, its local impact, and the urgency of moving ahead to solve these problems.

"I look forward to working with Congress on the energy bills because the Executive branch and the Legislative branch share many common viewpoints. Our differences are mainly how to achieve our common goals, not in the goals themselves.

"Congress wants a windfall profits tax. So does the President. The difference is that the system Congress wants is less flexible and, in the end, could be counterproductive. Oil companies can find many ways to reduce their profits without increasing production. We do not want to encourage that.

E-73-45

(more)

The President's proposal would tax excess profits, while encouraging the oil companies to divert their profits into methods of increasing our energy supplies.

"The President has asked for legislation to provide a statutory base for a Federal Energy Administration. I think it is clear to all that we need a centralized authority to formulate and implement Federal energy policy. It cannot be done on a fragmented, ad hoc basis. So we are hopeful that Congress will give the earliest possible attention to this bill.

"We have worked long and hard and, I think, constructively, with the Congress on the Emergency Energy bill. This is the effort that faltered at adjournment. We need the authority to enforce necessary energy conservation measures, and we need the authority to provide a prudent balance between our energy needs and our environmental standards. The Emergency Energy Act will provide these.

"The President has asked repeatedly that the price of natural gas be determined by the marketplace, rather than by artificial means. We know that when beef is held at an artificially low price, the cattlemen will not produce beef. So the consumer gives a little, the cattlemen give a little, and the price stabilizes at a point where one can afford to produce and the other can afford to buy. We have supplies of natural gas in America that are untapped today, and are going to be untapped until it is profitable for the industry to bring that gas in. This isn't profiteering. It's just good economic sense.

(more)

358

We want to let the marketplace work to help provide the additional supplies to meet at least a small part of our energy needs. I hope the Congress will allow this to happen.

"Finally, we need legislation to expedite the siting of energy facilities, especially nuclear generating plants; and we need legislation to permit the surface mining of coal in a fashion that will not sacrifice our good land to our energy needs. Coal is our most abundant natural fuel supply. But we have to be able to extract it in a way that is environmentally acceptable. Here again we need swift and decisive Congressional action.

"I have been dealing personally with many members of Congress on ways to meet the energy crisis. I know their concern is great. I know that in some cases they have misgivings about taking what some view as 'drastic' action to see this problem through. I understand these reservations, but I also understand the dimensions of the crisis we face. That is why I am hopeful that by working together toward our common goals, we can arrive at agreements on these critical pieces of legislation and get them on the President's desk as soon as possible."

-FEO-

December 27, 1973

359

FACT SHEET

"Unfinished Business from last week's press conference"

Before we go to questions, I have some unfinished business left over from last week's press conference. At that time, there were several questions that I wanted to answer in greater detail. I promised to have more complete answers today, and I would like to cover those questions before we go to new ones.

First, I was asked about the Internal Revenue Service "sweep" we ordered early this month. The question, as recall, was: "How many price gougers did the IRS agents find at truck stops on the Interstate highways?"

Answer: In its initial sweep on December 5th and 6th, IRS checked 833 truck stops in 16 States and found 224 violations--a rate of 26 percent. These violations were not always "price gouging", but included failure to post ceiling prices on the pumps. However, because of this extremely high violation rate, the sweep was expanded to cover the 48 continental States and many more truck stops. Our latest report shows that as of December 21, IRS agents have made 4,689 checks and found 1,222 violations. Again, the percentage comes out to 26 percent. Diesel fuel prices have been rolled back at 830 stops, refunds to truckers now amount to $112,000, and actions to enforce compliance are continuing.

Second, I was asked if I knew how far the average car is driven in the United States every year and what the 10-gallon-per-week limitation would mean to the average motorist.

"Unfinished Business" (CONT.)

Answer: Our data shows that there are approximately 92 million passenger vehicles in use in the United States. The average car is driven about 11.6 thousand miles per year and gets about 13.5 miles per gallon. This means the average car uses about 16.5 gallons of gasoline per week. So, in asking for a limit of 10 gallons per week, we are calling for about a 40 percent reduction in gasoline consumption. I must point out, however, that 10 gallons per week is a target rather than an average.

We know that families will find it necessary to exceed the 10 gallon target during some weeks. Therefore, if all American drivers took 10 gallons a week as a target, we would hope to get an overall cutback of between 25 and 30 percent in total gasoline usage. Taking the low side, a savings of 25 percent would thus mean a reduction of the average use from 16.5 gallons to 12.4 gallons per week. If this savings could be achieved, gasoline consumption during 1974 would drop from the predicted 108 billion gallons to 81 billion gallons--or approximately 1.8 million barrels per day.

We are making available in your handout materials, charts, and data of the "average annual mileage" broken down by occupation, household income, and so forth, prepared by the Bureau of Census for the Federal Highway Administration.

360

"Unfinished Business" (CONT.)

The third question regarded an offer of Iranian crude oil at a relatively low price that was not accepted by American oil companies last October. We have checked with sources both in our government and the Iranian government and have been unable to develop any information to substantiate that such an offer was actually made. If the reporter could furnish more facts as to the circumstances surrounding this alleged offer, particularly the name of the Iranian official quoted, we would be happy to pursue the matter further.

The reporter's reference may have been to offers made in previous years to the U.S. government by the Shah of Iran, seeking to provide petroleum to the U.S. in return for the elimination of all tariff and quota limitations. The offer was never accepted because of the difficulties such preferential treatment would have caused.

192

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DATA ON AVERAGE ANNUAL MILES

AND DISTRIBUTION OF PASSENGER CAR TRIPS

prepared by

BUREAU OF THE CENSUS

for the

FEDERAL HIGHWAY ADMINISTRATION, 1969-70*

*

* Most recent data available from the Department of Transportation

E-73-47
12/27/73

Average annual miles, average automobile age, percent of automobiles, and percent vehicle-miles by annual income of the household

Automobile characteristics	Annual income of the household									
	Under $3,000	$3,000 thru $3,999	$4,000 thru $4,999	$5,000 thru $5,999	$6,000 thru $7,499	$7,500 thru $9,999	$10,000 thru $14,999	$15,000 and over	Income not reported	All incomes
Average annual miles per vehicle (thousands)	6.6	7.7	9.2	11.2	11.3	12.2	12.2	15.0	11.4	11.6
Average age 1/	7.0	6.1	6.2	6.0	5.6	4.8	4.6	4.0	4.2	5.1
Percent of vehicle-miles	3.5	3.3	3.8	7.4	11.6	18.7	26.4	16.3	9.0	100.0 2/
Percent of vehicles	6.0	4.9	4.8	7.6	11.9	17.8	25.1	12.7	9.2	100.0 2/

1/ See footnote 1, table number 2.
2/ Percentages based on a total number of 66,843,567 vehicles and 2,129,860,000 daily vehicle-miles.

Source: Based upon unpublished tables T-9 and T-16 from the Nationwide Personal Transportation Survey conducted by the Bureau of the Census for the Federal Highway Administration, 1969-1970.

Average annual miles, average automobile age, and percent of automobiles by occupation of principal operator

Automobile characteristics	Occupation of principal operator									
	Professionals and semi-professionals	Farmers and farm managers	Proprietors, managers, and officials (except farmers and farm managers)	Store and office clerks and salesmen	Craftsmen, foremen, skilled laborers, etc.	Operatives, semi-skilled and unskilled laborers	Service workers	Retired household heads, 50 years or older	Not employed,[1/] not a retired household head	All groups
Average annual miles per vehicle (thousands)	14.6	8.6	14.1	13.3	12.0	10.9	10.3	6.6	10.0	11.6
Average age (years)[3/]	4.6	6.4	4.5	5.0	6.1	6.3	6.1	6.8	5.7	5.1
Percent of automobiles	14.1	1.7	7.4	15.9	11.2	15.2	6.3	8.8	19.4	100.0[2/]

1/ Includes all principal operators who are not employed and not a retired household head. In other words, it would include unemployed wife, school age children, etc., that are principal operators of a car.
2/ Percentages based on a total of 66,460,979 vehicles. Also includes 2.0 percent "other" or "N/A" occupation.
3/ See footnote 1, table number 2.
Source: Based upon unpublished table T-15 from the Nationwide Personal Transportation Survey conducted by the Bureau of the Census for the Federal Highway Administration, 1969-1970.

Average annual miles, average age, percent vehicles and percent vehicle-miles by place of residence of the principal operator

Automobile characteristics	Place of residence											
	Households in incorporated places				Households in unincorporated areas				Households in all places and areas			
	1 car	2 cars	3 or more cars	All	1 car	2 cars	3 or more cars	All	1 car	2 cars	3 or more cars	All
Average annual miles per vehicle (thousands)	10.4	11.6	12.6	11.2	11.8	13.0	13.2	12.6	10.9	12.0	12.8	11.6
Average age (years) 1/	5.0	5.0	4.9	5.0	5.2	5.3	5.3	5.3	5.1	5.1	5.1	5.1
Percent of vehicle-miles	-	-	-	63.9	-	-	-	36.1	-	-	-	100.0 2/
Percent of vehicles	-	-	-	66.6	-	-	-	33.4	-	-	-	100.0 2/

1/ See footnote 1, table number 2.
2/ Percentages based on a total number of 66,348,808 vehicles and 2,118,394,000 daily vehicle-miles.

Source: Based upon unpublished table T-13 from the Nationwide Personal Transportation Survey conducted by the Bureau of the Census for the Federal Highway Administration, 1969-1970.

Distribution of passenger car trips and vehicle-miles of travel by selected income classes in all standard metropolitan statistical areas for each individual purpose 1/

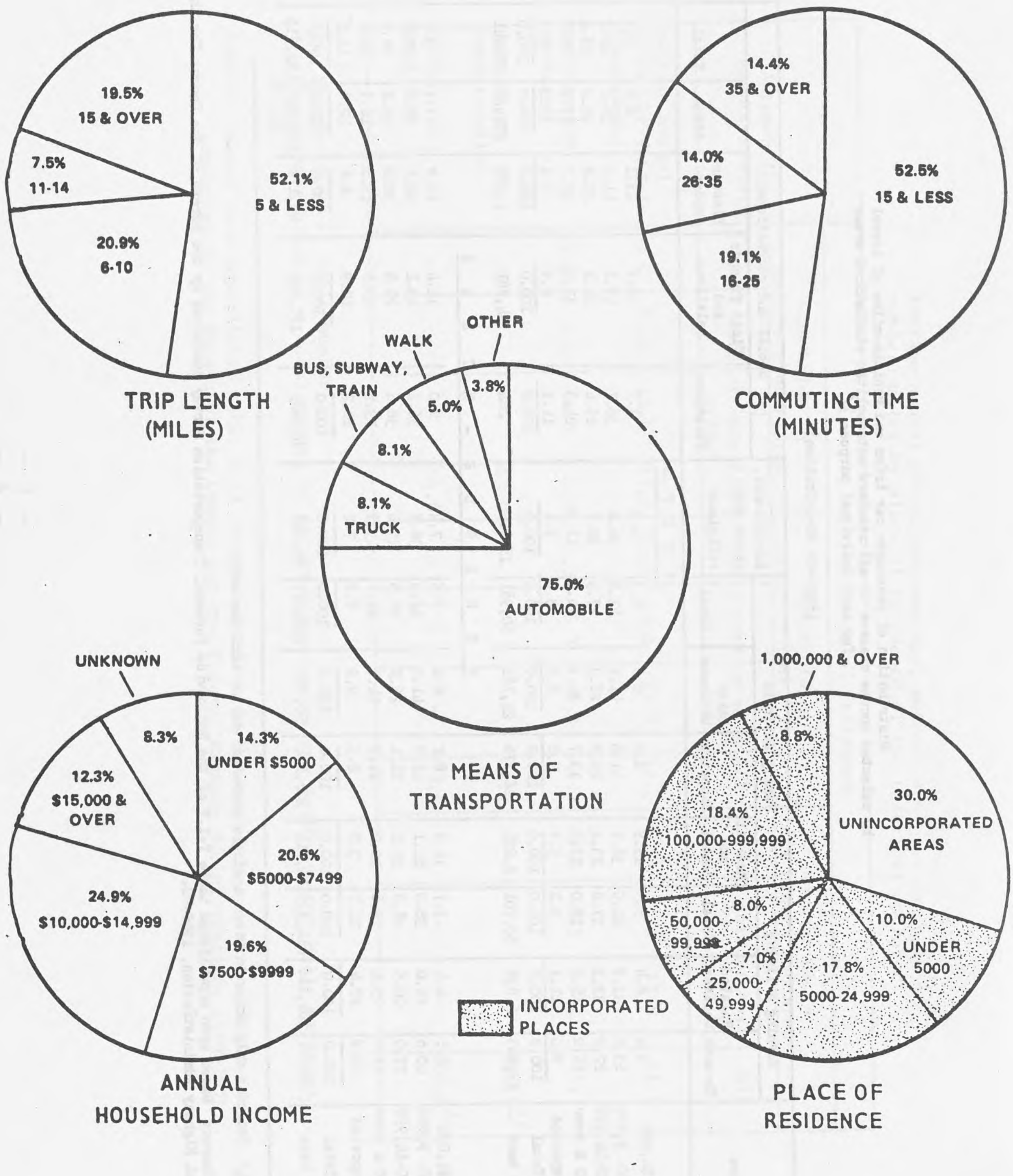
(Percent distribution)

Income	Earning a living			Family business				Educational, civic and religious	Social and recreational					Other and unknown	All purposes
	To work	Related business	Total	Medical and dental	Shopping	Other business	Total		Vacations	Visit friends and relatives	Pleasure rides	Other	Total		
TRIPS															
Under $4,000	5.4	6.4	5.5	15.5	8.8	6.8	8.3	6.3	1.7	10.7	13.1	8.7	9.7	8.8	7.4
$ 4,000- 9,999	43.6	33.9	42.5	38.1	41.6	41.2	41.2	36.6	36.7	47.2	41.1	35.2	40.2	34.3	41.0
10,000-14,999	27.0	33.3	27.8	23.4	26.9	28.3	27.3	30.7	25.4	24.2	25.8	26.2	25.4	28.8	27.3
15,000 & over	15.0	15.3	15.0	17.3	13.7	14.9	14.4	17.3	24.3	11.0	12.7	17.9	15.0	21.5	15.1
Not reported	9.0	11.1	9.2	5.7	9.0	8.8	8.8	9.1	11.9	6.9	7.3	12.0	9.7	6.6	9.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Daily base	53,863	6,838	60,701	2,824	26,376	21,781	50,981	15,199	244	14,281	2,088	20,428	37,041	1,909	165,832
VEHICLE-MILES															
Under $4,000	3.5	4.4	3.7	12.5	8.2	6.6	7.5	7.4	2.0	11.4	10.9	7.1	8.5	10.4	6.3
$ 4,000- 9,999	40.6	25.6	38.0	41.1	42.9	41.9	42.3	36.7	36.2	43.1	36.2	38.6	39.8	34.8	39.3
10,000-14,999	27.0	26.5	26.8	27.2	26.1	26.9	26.6	29.4	38.4	23.8	30.8	25.2	26.4	30.5	26.8
15,000 & over	19.0	23.1	19.8	16.2	14.3	14.7	14.7	19.3	13.2	10.8	13.5	16.3	13.8	20.7	16.8
Not reported	9.9	20.4	11.7	3.0	8.5	9.9	8.9	7.2	10.2	10.9	8.6	12.8	11.5	3.6	10.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Daily base	[illegible]0,191	104,148	614,339	16,911	106,374	50,981	263,657	69,368	41,665	175,329	45,179	220,540	482,713	14,572	1,444,649

1/ Includes only trips in which a single passenger car or taxi was used.

Source: Based upon unpublished table T-1.2 of the Nationwide Personal Transportation Survey conducted by the Bureau of the Census for the Federal Highway Administration, 1969-70.

CHARACTERISTICS OF WORKERS IN HOME-TO-WORK TRAVEL



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364

FACT SHEET

SIMON NAMES SPECIAL ECONOMIC ADVISORY COMMITTEE

To assure the most objective and meaningful assessment of the petroleum shortage, the Federal Energy Office is establishing a blue-ribbon committee of prominent economists and oil experts to review its petroleum estimates.

Members of the Committee are:

Name	Affiliation
Les Taylor	University of Michigan
Paul MacAvoy	MIT
Maurice Adelman	MIT
John Meyer	President, National Bureau of Economic Research
Kermit Gordon	President, Brookings Institution
Joseph Fisher	President, Resources for the Future
Ted Eck	Chief Economist, Standard Oil
Walter Heller	University of Minnesota

Estimates released today, as well as future background data, will be made available to the Committee for review.

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E-73-48

- 5 -

365

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EMBARGOED FOR RELEASE UNTIL
6:30 P.M., EST, SUNDAY, DECEMBER 30, 1973

FUEL "HARDSHIP CASES" NOW GETTING SPECIAL PRIORITY

William E. Simon, Administrator of the Federal Energy Office (FEO), today announced that the Federal Government, working closely with State and local officials, has settled more than 15,000 hardship cases regarding mandatory fuel allocation regulations. In addition, the fuel allocation staff has more than doubled in recent weeks to provide more efficient and responsive service to the public.

Most of these cases involved individuals, businessmen, farmers, and industries that requested hardship assistance under the mandatory allocation programs that went into effect on October 3 for propane and November 1 for middle distillate fuels.

When Administrator Simon was appointed to head the new Federal Energy Office, on December 4, there were 370 employees assigned to the Interior Department's fuel allocation program. Today, just three weeks later, this staff totals 900, with 300 in Washington and 600 in the regional offices.

Of the more than 15,000 cases resolved since November 1, about 10 percent were settled in Washington and 90 percent in the ten regional offices located in Boston, New York, Philadelphia, Atlanta, Chicago, Dallas, Kansas City, Denver, San Francisco, and Seattle.

E-73-50 -FEO-

364

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EMBARGOED FOR RELEASE UNTIL
6:30 P.M., EST, SUNDAY, DECEMBER 30, 1973

FUEL ALLOCATION VIOLATORS WILL BE PROSECUTED

"Willful violators of the mandatory fuel allocation regulations are subject to criminal penalties," William E. Simon, Administrator, Federal Energy Office (FEO), warned today. "False or fraudulent activities regarding the allocation program will be prosecuted and could lead to substantial fines," he added.

Administrator Simon pointed out that surveillance of the mandatory propane and middle distillate allocation programs is already underway. Reporting activities are being audited at all levels of the petroleum industry, including refiners, wholesalers, and retailers.

"A force of 1,000 Internal Revenue Service agents is now being mobilized for the enforcement of existing and additional fuel allocation programs, which will be implemented by January 15, 1974," he said.

Complaints regarding possible violations of the fuel allocation programs should be directed to regional offices

E-73-51

of the Federal Energy Office. The regional offices and telephone numbers are:

BOSTON	(617) 223-5195
(Maine, New Hampshire, Vermont, Rhode Island, Massachusetts, Connecticut)	
NEW YORK	(212) 264-1184
(New York, New Jersey, Virgin Islands, Puerto Rico)	
PHILADELPHIA	(215) 597-9330
(Pennsylvania, Delaware, Virginia, West Virginia, Maryland, District of Columbia)	
ATLANTA	(404) 876-2492
(North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, Tennessee, Kentucky, Canal Zone)	
CHICAGO	(312) 591-6025
(Michigan, Illinois, Wisconsin, Minnesota, Indiana, Ohio)	
DALLAS	(214) 749-7631
(Texas, Louisiana, Arkansas, Oklahoma, New Mexico)	
KANSAS CITY	(816) 374-2971
(Iowa, Nebraska, Missouri, Kansas)	
DENVER	(303) 234-2420
(Montana, Wyoming, North Dakota, South Dakota, Colorado, Utah)	
SAN FRANCISCO	(415) 556-7300
(California, Nevada, Arizona, Hawaii, American Samoa, Guam, Trust Territory of the Pacific Islands)	
SEATTLE	(206) 442-7260
(Washington, Alaska, Oregon, Idaho)	

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367

EMBARGOED FOR RELEASE UNTIL
6:30 P.M., EST, SUNDAY, DECEMBER 30, 1973

FEDERAL ENERGY OFFICE WILL REVIEW FUEL INVENTORIES

Administrator William E. Simon today announced that the Federal Energy Office (FEO) is looking into the fuel inventory practices of refiners, importers, wholesalers, and end users of crude oil or refined products. "We are concerned over the possibility of fuel being stockpiled in excessive and unreasonable amounts," he said, "which could create local shortages and disrupt normal distribution patterns."

Simon said that his staff will be scrutinizing inventory data from industry and government agencies to determine if the current fuel shortage has led to abnormal stockpiling.

Citing the revised Mandatory Fuel Allocation Regulations, which were sent to the Federal Register on December 27, Simon said, "We will review inventory practices and direct an increase or decrease in inventories if circumstances warrant."

Questions regarding inventory levels should be directed to FEO's regional offices in Boston, New York, Philadelphia, Atlanta, Chicago, Dallas, Kansas City, Denver, San Francisco, and Seattle.

-FEO-

E-73-52

368

FEDERAL ENERGY OFFICE
Public Affairs
4001 New Executive Office Building
Washington, D. C. 20461
Telephone: 395-3537

FOR IMMEDIATE RELEASE DECEMBER 29, 1973

GASOLINE AND DIESEL RETAILERS TO ADVISE FEDERAL ENERGY OFFICE

Administrator William E. Simon today announced plans to establish an advisory group representing gasoline and diesel retail dealers -- small businessmen who can provide the Federal Energy Office advice and information from the grass roots level. "We are concerned about the local dealer whose business has already been disrupted by current fuel shortages," Simon said.

"Local dealers are living with the problems created by the fuel shortage and we think it is essential that representatives of these dealers help us formulate the programs that will affect their operations," Simon added.

The group is not intended to be representative of any particular segment of the retail petroleum industry but rather to provide a cross section of businessmen with expert knowledge in the retail field.

A public briefing will explain the duties and responsibilities of the advisory group as well as the selection process for appointing members. All interested parties are invited to attend this briefing, which will be held at the Cost of Living Council, 2000 M Street, N. W., Washington, D. C., at 1:00 P.M., on January 9, 1974.

(more)

E-73-53

369

FEDERAL ENERGY OFFICE
Public Affairs
4001 New Executive Office Building
Washington, D. C. 20461
Telephone: 395-3537

EMBARGOED FOR RELEASE UNTIL
3:30 P.M., EST, MONDAY, DECEMBER 31, 1973

GAS, HEATING OIL DEALERS ALLOWED PRICE HIKE

Administrator William E. Simon announced today that sellers of gasoline, home heating oil and diesel fuel will be allowed an increase in their prices in January to offset increased non-product overhead costs. Retailers will be allowed to increase their prices by one cent per gallon and wholesalers will be allowed to increase their prices by one-half cent per gallon.

Simon also said that FEO soon will announce a price adjustment system to allow wholesalers and retailers to compensate for reductions in the amount of gasoline, heating oil and diesel fuel they have available to sell under the mandatory allocation program.

Simon stated: "Today's actions recognize that many retail gasoline and heating oil dealers are being hurt financially. Price controls have required them to absorb rising operating costs and allocation rules have reduced the quantity of products available for sale. As a result some smaller businessmen are being forced out of business and others are threatened with severely curtailed operations. These actions will relieve some of the pressure of this profit squeeze."

E-73-54

Today's announcement permitting a January price increase of up to 1 cent at retail and 1/2 cent at wholesale is the first increase in non-product operating costs for petroleum dealers since the June 1973 price freeze. It will mean price increases of approximately 1¢ to 1.5¢ per gallon at the pump for gasoline and diesel fuel and a similar price hike for home heating oil.

These price increases may be implemented at the same time normal once-a-month increases are made to reflect increased product costs. Refiners that have wholesale and/or retail operations also can increase their prices to offset increased overhead costs in the same amounts only if they can justify such increases through normal prenotification procedures.

A further announcement will be made later implementing a system permitting monthly price adjustments to compensate dealers for reduced allocations.

- FEO -

370

FEDERAL ENERGY OFFICE
Public Affairs
4001 New Executive Office Building
Washington, D. C. 20461
Telephone: 395-3537

EMBARGOED FOR RELEASE UNTIL
3:30 P.M., EST, MONDAY DECEMBER 31, 1973

PRESIDENT PLEDGES STRICT ENFORCEMENT OF FUEL REGULATIONS

In a telephone conference this afternoon with William E. Simon, Administrator of the Federal Energy Office (FEO), President Nixon discussed the ongoing evaluation of Administration energy conservation initiatives. He again expressed pleasure at the responsible way the American people are complying with conservation requests. The President said that there is good evidence that Americans have recognized the importance of each individual's contribution so that the country as a whole can count on our critical energy needs being met. The President also told Administrator Simon in strong terms that he expects the investigations of any suspected industry abuses to be tough and thorough. He asked for a report on the preliminary findings of the stockpiling investigation by no later than February 1.

The President told Administrator Simon that he wants to know which companies are involved in violations, to what extent, and what penalties are being levied. The President was emphatic that any industry abuses during a time when our citizens are called upon to sacrific is intolerable and that this Administration will find out if price gouging, improper allocations, or hoarding is taking place and see that the penalties are strongly enforced.

E-73-55 -FEO-

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

371

FOR RELEASE AT 4:00 P.M., EST
DECEMBER 26, 1973

INTEREST EQUALIZATION TAX REDUCED

The Treasury Department today announced that, pursuant to an Executive Order signed by the President, the Interest Equalization Tax (IET) applicable to acquisitions of foreign stock and foreign debt obligations will be reduced from the present rate of approximately three quarters of one percent to a new rate of approximately one quarter of one percent. The new lower IET rate schedule will be applicable to trades and acquisitions of foreign stock or obligations made after December 31, 1973.

The IET has been in effect since July, 1963, as a means of helping to restrain flows of capital from the United States into portfolio investments in other developed countries. Under the IET law, the President has authority to vary the effective rate of tax between zero and the equivalent of one and one half percent per annum on purchases of foreign securities subject to the tax. The last change in the rate of the tax was on April 5, 1969, when it was reduced from one and one quarter percent to three quarters percent per annum.

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S-343

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

372

December 26, 1973

NOTE TO CORRESPONDENTS:

The United States is making new adjustments in the various programs that restrain capital flows out of the country. These modifications are in line with the Administration's objective of phasing out the restraint programs. Details of these actions are described in separate announcements made today by the Treasury and Commerce Departments and the Board of Governors of the Federal Reserve System.

The measures taken are consistent with the improvement which is taking place in the United States balance-of-payments position and with a desire to eliminate barriers to international capital movements. In the same context, the Treasury Department will be conferring with the Congress during 1974 on the question of eliminating the withholding and estate taxes applicable to foreign investors in the United States.

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Department of the TREASURY NEWS
[W]ASHINGTON, D.C. 20220 TELEPHONE WO4-2041
THE DEPARTMENT OF THE TREASURY 1789

373

[FO]R RELEASE 6:30 P.M. December 28, 1973

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.5 billion of 13-week Treasury bills and for $1.8 billion [o]f 26-week Treasury bills, both series to be issued on January 3, 1974, were [o]pened at the Federal Reserve Banks today. The details are as follows:

[RA]NGE OF ACCEPTED [CO]MPETITIVE BIDS:	13-week bills maturing April 4, 1974		:	26-week bills maturing July 5, 1974	
	Price	Equivalent annual rate	:	Price	Equivalent annual rate
High	98.143 a/	7.346	:	96.289 b/	7.300%
Low	98.116	7.453	:	96.239	7.399%
Average	98.128	7.406 1/	:	96.253	7.371% 1/

a/ Except 1 tender of $315,000 b/ Except 1 tender of $120,000

Tenders at the low price for the 13-week bills were allotted 64%.
Tenders at the low price for the 26-week bills were allotted 63%.

[TO]TAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 36,045,000	$ 25,545,000	:	$ 19,500,000	$ 8,500,000
New York	2,862,080,000	2,075,970,000	:	2,533,810,000	1,512,060,000
Philadelphia	21,310,000	21,310,000	:	31,105,000	11,105,000
Cleveland	28,885,000	28,885,000	:	31,785,000	19,935,000
Richmond	14,720,000	14,720,000	:	20,080,000	16,330,000
Atlanta	18,590,000	18,590,000	:	13,105,000	11,605,000
Chicago	203,065,000	143,885,000	:	173,195,000	133,695,000
St. Louis	46,885,000	42,885,000	:	33,030,000	14,730,000
Minneapolis	4,200,000	4,200,000	:	5,380,000	5,380,000
Kansas City	25,265,000	20,265,000	:	19,555,000	14,925,000
Dallas	37,870,000	25,150,000	:	36,755,000	20,385,000
San Francisco	98,005,000	78,645,000	:	90,130,000	32,280,000
TOTALS	$3,396,920,000	$2,500,050,000c/		$3,007,430,000	$1,800,930,000 d/

c/ Includes $274,305,000 noncompetitive tenders accepted at the average price.
d/ Includes $140,200,000 noncompetitive tenders accepted at the average price.
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 7.65% for the 13-week bills, and 7.76 % for the 26-week bills.

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

FOR IMMEDIATE RELEASE December 28, 1973

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $4,300,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing January 10, 1974, in the amount of $4,304,290,000 as follows:

91-day bills (to maturity date) to be issued January 10, 1974, in the amount of $2,500,000,000 or thereabouts, representing an additional amount of bills dated October 11, 1973, and to mature April 11, 1974, (CUSIP No. 912793 TG1) originally issued in the amount of $1,803,250,000 the additional and original bills to be freely interchangeable.

182-day bills, for $1,800,000,000 or thereabouts, to be dated January 10, 1974, and to mature July 11, 1974, (CUSIP No. 912793 UE4).

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, January 7, 1974. Tenders will not be received at the Treasury Department, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

(OVER)

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

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on January 10, 1974, in cash or other immediately available funds or in a like face amount of Treasury bills maturing January 10, 1974. 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

375

FOR RELEASE AT 2:00 P.M., EST December 28, 1973

ADDRESS BY THE HONORABLE GEORGE P. SHULTZ
THE SECRETARY OF THE TREASURY
BEFORE A JOINT MEETING OF
THE AMERICAN ECONOMIC ASSOCIATION AND
THE AMERICAN FINANCE ASSOCIATION
THE NEW YORK HILTON, NEW YORK

REFLECTIONS ON POLITICAL ECONOMY

There is lots of politics in economics these days. This is hardly surprising when political survival so often seems tied to government action: to avoidance of the differential effects from what government does or doesn't do on particular Congressional districts, industries or occupations or, conversely, to the special flow of largesse from government. As the saying goes, "I don't care how you analyze it as long as you give a dam!"

As economists, we are hardly to blame for this state of affairs. But, having bolted from the seminar room to the policy scene, we can, it seems to me, be more effective with our contributions if we think of ourselves as engaged -- to use the words of an earlier day -- in political economy. This is more than a call for a greater overlay of common sense, uncharacteristic humility, and renewed attention to the analysis of policy issues; it is a call for an extension of institutional analysis beyond the firm and the union so that we might better understand and thereby affect economic decision-making by government.

In the second half of the nineteenth century, our predecessors stopped calling their subject political economy and started using the term economics. Marshall set the new style with his principles of economics. I leave it to students of the history of economic thought to explain the intellectual origins of that shift. But surely one of the implications was that economics had become a discipline independent of politics. Later, some economists were to argue that economics could be value-free, and it must be conceded that the powerful analytical methods developed by Marshall and his successors did create a system of ideas that approaches intellectual elegance, if not self-sufficiency.

Economists did not, to be sure, lose interest in policy. Some of them were even more interested in politics than their political economy forebears had been. Not a few consciously used their academic credentials to further political ends they favored for reasons having little to do with economics. But, on the whole, economists stuck to their blackboards, and more recently to their printouts and portfolios.

As the government came to play an increasingly important role in the economy, economic issues became correspondingly politicized. Tariffs, taxes and government spending had always been highly political issues. But as the government's responsibility for the performance of the economy grew, and the public's tolerance for shortfalls diminished, economic policy decisons became the product of political forces which could override the strictures of economic analysis. Today it is common for the political interplay of interest groups, Congress, and the Executive to result in sharp shifts in economic policy that are not predicted or supported by conventional models. The present controls program, and particularly the second freeze, is a current example.

At the other extreme, I am struck by the fact that economists -- both inside and outside government -- will support their views by reference to non-economic considerations without subjecting their allegations to the same rigorous tests they would apply to the most humble equation. Thus, economists may concede that the policy they advocate will in the long-run harm the consumer, impair the market mechanism, and reduce GNP, <u>but</u>, they say, it is necessary to inspire confidence that the government is willing to act to solve national problems. In effect, this process gives "politics" a double dip in economic decision-making, once on an amateur level and once professional.

These observations lead me to pose two questions for discussion today. First, what should the professional economist's posture be toward public policy issues? Granted that he has the same civil rights as any other citizen, should his professionalism lead him to limit his advice to purely economic perspectives or should he blend his economic, psychological, and political talents to become an all-purpose advisor to the government and to the public?

376

Second, whatever our answer to the first question, how do economic issues present themselves to the policymaker, and how can he best utilize the talents of the professional economist?

I do not propose to answer those two questions independently of each other. Rather, I should like to set forth briefly one aspect of governmental operation, an institutional constraint of central importance for economic policymaking, and then attempt to derive some tentative answers to those two questions.

Present Institutional Arrangements

Economic policy issues seldom present themselves to the policymaker in disembodied terms. If they did, economic policy could be handled by statisticians and computer experts -- no doubt for the lasting benefit of all. Rather, those issues are served up to the policymaker by a variety of political and economic forces outside his direct control. In addition, the time horizon for resolving a policy issue is usually short: an economist's "lag" may be a politician's catastrophe.

Proposals for policy actions typically are put forward by a party in interest. I leave aside proposals advanced in letters to the New York Times and academic articles, as well as other proposals that, whatever their intrinsic merits, are likely to sink directly to the bottom of the Washington political seas. Those that stay afloat long enough to have a chance of surviving must have the strong support of at least one party in interest.

The first interest group is the group the term usually suggests -- a group in the economy that will benefit directly from the legislative or administrative action proposed. It has long been apparent to many companies, unions, professional bodies, associations, and the like that they can achieve profits or other advantages as easily by government actions as by their own efforts in the marketplace. Sometimes they seek subsibies, sometimes tax relief, sometimes protection from competition. If they can succeed, should we economists be surprised that they seek the gold at the end of the government rainbow? We should indeed expect them to use government until at the margin the costs exceed the benefits received.

The second interest group is the executive branch department or bureau that represents the first interest group. It may seem odd to refer to an executive department as an interest group, but the fact is that the interests of a particular department are quite often remarkably allied with their "clients" in the society. Here I speak of no conspiracy or even any lack of civic virtue on the part of Cabinet Secretaries and their faithful civil servants. Such clientele representation is expected in Wasington. Advocacy government is part of our unwritten constitution. Everyone expects the Department of Agriculture to represent the farmers, the Department of Interior to represent the western reclamation interests, and even the Department of State to represent the impact on foreigners in the interagency forums where executive branch decisions are hammered out. Even if such advocacy relationships were not so universally expected, a Cabinet Secretary would find it difficult to avoid representing his clients at the White House court. Many quickly become captured by the permanent bureaucracy that does not doubt the desirability of client representation, and others find that the way to gain public support and to avoid brickbats is to support their clients' interests.

Members of the bureaucracy have limits placed on their income, of course, and predictably they seek their satisfaction in other ways. Parkinson has said most of what there is to say on this subject, and the tendency toward bureaucratic edema is familiar to all diagnosticians of governmental ailments. The waste and inefficiency would be tolerable, but what is more troubling is the systematic bias toward expansion of the role of government. Cabinet Secretaries and other departmental political appointees, whatever their initial good intentions, all too often slip into the role of "hired guns" for their departments in interagency struggles.

377

To understand fully the role of the departments, it is important to grasp the nature of the third interest group--the legislative committees in the Congress. Congressmen represent the interests of their constituents, and this is as it should be. Farm state legislators tend to vote for farm programs whether or not those programs contribute to efficiency in the allocation of resources. Economists may remonstrate, but they seldom have had to meet a precinct captain.

What is less widely appreciated is the extent to which self-selection results in agricultural committees being dominated by farm state legislators, interior committees by westerners, and so forth. Only one of the thirteen members of the Senate Interior Committee is from east of the Mississippi. The consequences are predictable.

Congress and the executive branch are joined in bureaucratic wedlock by the fact that for nearly every Congressional committee, there exists an executive department or bureau in the same substantive area. The department's attention to the wishes of the committee members is assured by the increasingly pervasive requirement that the spending programs of the department be authorized once each year in addition to the constitutional requirement of appropriation of funds. Recently, the practice has taken root of trying to require the annual authorization not merely of spending programs but also of employee salaries and expenses--that is, the annual authorization of the existence of the department itself.

This state of affairs gives a committee chairman great strength. It also has a more subtle effect. If the legislator is to achieve success in his calling and concomitant rewards in prestige and national attention, then his legislative efforts must be focused on topics within his committee's competence. Here we see a little-perceived, but persistent, force making for a larger government role. If the committee's jurisdiction is, let us say, health, then it can be predicted with high probability that the members, and particularly the chairman, will favor expanded government health programs. The same goes for national defense, agriculture, and so on down the line of government programs.

What has kept this process in check is not so much the self-restraint of the members of the substantive committees. More important is the inevitable shortage of resources for doing everything at once and the organizational embodiment of this resources constraint, the appropriations committees who hone the ambitions of the substantive committees down to size in the annual appropriations cycle. But even the appropriations committees cannot exercise their traditional discipline over the process. Their jurisdiction over the resource allocation function has been steadily eroded through the growth of various backdoor spending practices. And, of course, they too can and do become a part of the alliances of interests.

Nevertheless, the budget process is a great check on private ambitions over public funds and one of the most effective checks to bureaucratic expansionism. More importantly, it provides to the public resource allocation process the necessary overall spending constraint that the price system imposes on private resource decisions.

Today, budget discipline is breaking down in three ways. The first is the growth of backdoor spending techniques in the Congress which exclude the appropriations committees from the resource allocation process and thereby assure that Congress never looks at the budget as a whole. The second way in which budget discipline is eroding is through the tendency over the years of both Presidents and Congresses to take favored programs off the budget and thereby to avoid making overall resource allocation decisions. Today, over a third of the debt obligations of the Federal Government reflect off-budget credit and guarantee programs. The third pernicious influence on budget discipline is now just arising. It stems from the desire of congressional committees to free favored programs from any executive branch allocation decision by permitting various executive agencies to submit their proposed budgets directly to the Congress and thereby end-run the annual presidential budget proposal to the Congress. While each of these three techniques may be expedient to particular interests at particular times, they threaten a breakdown of the system that will be harmful to all. At minimum they facilitate the use of government for private gain.

Fortunately, Presidential and Congressional perception of the budget problem has grown. It has been recently and forcefully expressed in the form of a joint committee on this subject and proposals for new institutional arrangements are well advanced. They deserve all the support they can get. To succeed, they will need sustained effort both for enactment and for use in the manner of the stated objectives.

Thus far we have considered how outside economic interests, executive departments, and substantive legislative committees, each acting out of self-interest and without any element of conspiracy, tend to form alliances to serve their common interests. This process extends beyond narrowly economic issues to the social and even the national security and foreign policy

378

arenas. What economist should be surprised? Is it not now standard theory that utility maximization extends to organizations as well as individuals and to matters other than simple pecuniary gain? Economists should be able to appreciate and extend concepts of self-interest in a complex political environment in which the quality of democratic representation as well as efficiency is at stake.

The approach that I have described can help to illuminate many features of the national scene. The outside interest groups need not be limited to the behemoths of industry operating the military-industrial complex but can as easily be the hospital and school administrators, the organized social workers, and others with a vested interest in doing things in the same old way. It was mildly instructive, for example, to observe the opposition of the social workers to the family assistance plan under which federal dollars would have been channeled directly to the poor in order to permit each poor family to decide for itself how best to spend its allotment. We should not be surprised that many social workers supported the retention of the existing system under which a large portion of those dollars go to social workers, a middle-income group, in return for supervising the allocation of in-kind benefits and the expenditure of funds by the poor.

GOOD OR BAD

My patient listeners may fairly ask whether I approve or disapprove of the piece of the American political economy system that I have just described. I find that question difficult to answer, not least of all because, for one thrust into a policy-making role, the readiest answer is simply "it exists: therefore I must deal with it." The policymaker finds the invitation to pass judgment a luxury in which he can seldom indulge. But at this academic meeting it is entirely in character that I recognize both strengths and shortcomings in the system.

Aside from democratic considerations concerning the right of groups to be heard in the hall of government, the advocacy element may be cited as a positive factor. Although it is possible to make decisions in a hermetically sealed systems-analysis environment, the fact of the matter is that abstract economic analysis too often ignores vital factors that are more likely to be brought to the policymaker's attention through the advocacy process.

Let me cite controversial areas where economists have been prominent in public debate, yet the limitations on our professional judgment seems to me apparent. The first is in energy. Proceeding from the simple thesis that oil could be extracted more cheaply abroad, economists have in the past usually argued on grounds of welfare and efficiency for relatively free importation. Counter-arguments, proceeding from a quite different and non-economic thesis of national independence, were viewed with suspicion at best. Yet, today, the case for a capacity for independence in energy supply can be seen not just as the pleading of a "special interest," but as a valid national goal. Economists will and should have a lot to say about how we reach that goal--but it was and is simply wrong to discount the validity and importance of this goal.

The approach of economics toward oil imports is, of course, one application of the powerful and persuasive case for freer trade generally. Yet, in pursuing that goal, how do we weigh the diffused and generalized gains from trade against the very real pains and costs of the dislocations that shifting trading patterns cause in particular Congressional districts that elect particular Congressmen?

We need a process to reconcile these objectives--for example, to accompany reduced trade barriers with new "safe-guard" provisions, and to recognize the national interest in an assured energy supply. The process of reconciling these goals should not be seen as a distortion of the purity of our economics, but rather as a valid national requirement working through political institutions.

On the negative side of the advocacy process, there is in my mind one major disadvantage, that is, the system creates almost irresistable incentives for the expansion of the government without careful attention to the costs or implications of such a process. All of the advocates in the system seek to better their position and in nearly every case, whether they be outside economic interests, executive departments, or congressional committees, bettering their positions means expanding government action.

Now some of you may favor a larger role for government. Perhaps this is only a question of values and, if so, my conviction that we must do our best to hold the line against the encroachment of government on private institutions has been greatly strengthened by my experience over the last five years. In any case, assuming that the question of the proper size of government is amenable to rational debate, I see no grounds for concluding that the process I have described would lead to an optimum size of government or the assumption of functions for which government has a clear comparative advantage. This judgment may help to explain why economists are unlikely to be elected president of any organization other than the American Economic Association, but it also raises issues to which economists should be especially sensitive.

379

What Does It All Mean For The Policymaker?

How does the policymaker deal with the advocacy system that I have described? First of all, he must be realistic about the environment in which he must function. Some cynics have said that success in Washington can be equated with survival, and it is certainly true that one cannot ignore political and bureaucratic factors to the point where he is excluded from the decision-making process. But that is merely a negative condition of access to decisions. There is a more positive way to approach the question. When I first came to Washington I used to think that there were two kinds of people: substantive folks, like you and me, who analyze problems and propose optimal solutions, and the politicans who do their thing, for good or for ill, with the proposals we make. I never had a sillier idea. One cannot make, much less execute, effective policies without taking political and bureaucratic factors into account and, on occasion, turning them to advantage.

I have a reasonably well known failing for thinking of the government process in sailing terms. A theory -- a compass -- is needed as a basic guide for the helmsman. For me, economic reasoning, and particularly notions of efficiency, provides such a guide. However, the application of an economist's principles must accommodate both notions of equity and a sense of political feasibility. If efficiency is the cutting edge of economics, then equity -- or fairness -- is the sine qua non of politics, even though the concept may be used to support claims that arise from self-interest. In a governmental process, efficiency and equity often conflict -- or appear to conflict -- so that the economic policymaker must often mitigate intellectual purity with equitable considerations that are defined in political terms. In familiar language, efficiency is not a free good.

Economic theory thus provides both a notion of where we want to sail and also a compass for knowing where we are on the relatively uncharted governmental seas. With the changing political winds -- winds that sometimes seem to change 180° within a few weeks in Washington -- one who sets sail directly toward his distant goal would never get there. The skill lies in tacking. The successful policymaker is one who can turn the opposing wind to advantage, as he moves in the direction shown on his compass.

What Does It All Mean For The Professional Economist?

If you accept my description as a reasonably accurate report from a professional economist who has made a short, albeit intensive, exploration of the distant land of policymaking, then you may fairly ask what contribution the professional economist can make to such an undisciplined process.

I believe the economist has a primary responsibility to stick to his knitting, to point out and point up the conclusions derived from strict application of economic logic and the relative power of the economic forces involved. Just as there are many cases where non-economic considerations (the importance of a capacity for independence in energy) dominate, there are others where market forces overwhelm (the ultimate inability of a government to sustain exchange rates that are seriously out of balance). Such a strategy preserves what is best in economics -- its vigor, its perspective, its capacity for satisfying one's desire for logic and symmetry in thought, its ability to destroy the myths that plague popular discussion of economic issues and its power as a teaching vehicle. Such a strategy provides the policymaker with the map and compass he needs to sail the seas of Washington.

Aside from strict application of professional economics in policymaking, there is, however, lots of room for a more systematic study of the constraints and the institutional environment within which government policies influencing the economic system are arrived at. This is the domain of political economy, and the time has come for a return to this nineteenth century subject. I am aware that much work has already been done, but so far as I know, it has not yet reached the point of usefulness that, for example, standard price theory has long had.

Last, it seems to me that economists have a special role to play in explaining, if not dramatizing, the relationship between economic behavior and the exercise of individual liberty. By this I do not mean to assert doctrinaire support of the Chicago school or any other school. It is true, however, that where a man works, the wage he commands for that labor, how he spends or invests his money and what prices he charges for his products are basic elements of personal freedom that define our everyday lives. Both Marx and Smith recognized this fact and projected alternative paths to the good society.

As a subject of considerable technical virtuosity, modern economics often obscures this relationship between personal freedom and economic behavior in a tangle of assumptions and computations. For the ordinary citizen inconvenienced by a strike, the controversy over free collective bargaining usually appears to be an exercise of distant relevance. When economic issues do intrude on the public's consciousness -- as in the current energy crisis -- they are often cast in terms of avarice or undeniable needs. Thus, in my judgment economists have a particular responsibility to relate policy decisions to the maintenance of freedom, so that, when that combination of special interest groups, bureaucratic pressures and congressional appetites calls for still one more increment of government intervention, we can calculate the costs in these terms. In this manner, economists may have an impact on policy that extends beyond the most current crisis and reflects the best traditions of this discipline.

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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 December 27, 1973, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing March 28, 1974		26-week bills maturing June 27, 1974	
	Price	Equivalent annual rate	Price	Equivalent annual rate
High	98.168	7.247%	96.335a/	7.249%
Low	98.119	7.441%	96.284	7.350%
Average	98.143	7.346% 1/	96.302	7.315% 1/

a/ Excepting 4 tenders totaling $6,300,000

Tenders at the low price for the 13-week bills were allotted 50%.
Tenders at the low price for the 26-week bills were allotted 56%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 30,540,000	$ 30,540,000	$ 16,110,000	$ 6,110,000
New York	2,699,055,000	1,879,055,000	2,448,785,000	1,490,585,000
Philadelphia	17,415,000	17,415,000	29,770,000	9,770,000
Cleveland	34,190,000	34,190,000	14,320,000	14,320,000
Richmond	16,005,000	16,005,000	8,545,000	8,545,000
Atlanta	19,960,000	18,960,000	28,560,000	26,560,000
Chicago	235,700,000	224,950,000	182,960,000	128,220,000
St. Louis	36,080,000	35,080,000	20,640,000	14,640,000
Minneapolis	25,890,000	25,890,000	21,050,000	21,050,000
Kansas City	25,460,000	25,460,000	19,950,000	14,520,000
Dallas	40,310,000	36,310,000	28,240,000	8,240,000
San Francisco	158,680,000	156,180,000	116,745,000	57,455,000
TOTALS	$3,339,285,000	$2,500,035,000b/	$2,935,675,000	$1,800,015,000c/

b/ Includes $279,330,000 noncompetitive tenders accepted at the average price.
c/ Includes $122,260,000 noncompetitive tenders accepted at the average price.
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 7.59 % for the 13-week bills, and 7.70 % for the 26-week bills.