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U.S. Treasury Dept.

Press Releases.

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

FOR IMMEDIATE RELEASE May 1, 1974

TREASURY ANNOUNCES MAY REFINANCING

The Treasury announced today that it will auction to the public up to $2 billion of 25-1/2 month notes, up to $1-3/4 billion of 4-1/4 year notes, and up to $300 million of 25 year 8-1/2% bonds, to provide funds for refunding part of the $5.6 billion of securities maturing May 15. The Treasury said that it will use available cash to handle the balance of the maturities. It also announced that it will increase the amount of the weekly offerings of Treasury bills to be issued from May 16 through June 13 by $200 million each week. Additional amounts of the notes and bonds will be allotted to Government accounts and the Federal Reserve Banks in exchange for their holdings of the maturing securities, which total $1.6 billion. The securities to be auctioned will be:

Treasury Notes of Series I-1976 dated May 15, 1974, due June 30, 1976 (CUSIP No. 912827 DT6) with interest payable on December 31, 1974, and thereafter on June 30 and December 31,

Treasury Notes of Series C-1978 dated May 15, 1974, due August 15, 1978 (CUSIP No. 912827 DU3) with interest payable on August 15, 1974, and thereafter on February 15 and August 15.

8-1/2% Treasury Bonds of 1994-99 dated May 15, 1974, due May 15, 1999, callable at the option of the United States on any interest payment date on and after May 15, 1994 (CUSIP No. 912810 BR8) with interest payable on May 15 and November 15.

The rates for the notes will be announced on Friday, May 3.

The notes will be issued in registered and bearer form in denominations of $10,000, $100,000 and $1,000,000. The bonds will be issued in registered and bearer form in denominations of $1,000, $5,000, $10,000, $100,000 and $1,000,000.

Tenders for the 4-1/4 year notes will be received up to 1:30 p.m., Eastern Daylight Saving time, Tuesday, May 7, tenders for the 25-1/2 month notes will be received up to 1:30 p.m., Eastern Daylight Saving time, Wednesday, May 8, and tenders for the bonds will be received up to 2:00 p.m., Eastern Daylight Saving time, Wednesday, May 8 at any Federal Reserve Bank or Branch and at the Bureau of the Public Debt, Washington, D. C. 20226; provided, however, that noncompetitive tenders will be considered timely received if they are mailed to any such agency under a postmark no later than May 6 for the 4-1/4 year notes and May 7 for the 25-1/2 month notes, and the bonds. Each tender for the notes must be in the amount of $10,000 or a multiple thereof, and each tender for the bonds must be in the amount of $1,000 or a multiple thereof, and all tenders must state the price offered, if a competitive tender, or the term "noncompetitive", if a noncompetitive tender.

The price on competitive tenders for the notes must be expressed on the basis of 100, with two decimals, e.g., 100.00. Tenders at a price less than 99.51 for the 25-1/2 month notes and 99.01 for the 4-1/4 year notes will not be accepted. Tenders at the highest prices will be accepted to the extent required to attain the amount offered. Successful competitive bidders for the notes will be required to pay for the

notes at the price they bid. Noncompetitive bidders will be required to pay the average price of all accepted competitive tenders.

The price on competitive tenders for the bonds must be expressed on the basis of 100, with two decimals in a multiple of .05, e.g., 100.10, 100.05, 100.00, 99.95, etc.

Tenders for the bonds at a price less than 93.80 will not be accepted. Tenders at the highest prices will be accepted to the extent required to attain the amount offered. All accepted tenders for the bonds will be awarded at the price of the lowest accepted bid.

Fractions may not be used in tenders. The notation "TENDER FOR TREASURY NOTES (Series I-1976 or C-1978)" or "TENDER FOR TREASURY BONDS" should be printed at the bottom of the envelopes in which the tenders are submitted.

The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations noncompetitive tenders for $500,000 or less for each issue of notes will be accepted in full at the average price of accepted competitive tenders and noncompetitive tenders for $250,000 or less for the bonds will be accepted in full at the same price as accepted competitive tenders. The prices may be 100.00, or more or less than 100.00.

Commercial banks, which for this purpose are defined as banks accepting demand deposits, may submit tenders for the account of customers provided the names of the customers are set forth in such tenders. Others than commercial banks will not be permitted to submit tenders except for their own account.

Tenders will be received without deposit from commercial and other banks for their own account, Federally-insured savings and loan associations, States, political subdivisions or instrumentalities thereof, public pension and retirement and other public funds, international organizations in which the United States holds membership, foreign central banks and foreign States, dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon, Federal Reserve Banks, and Government accounts. Tenders from others must be accompanied by payment of 5 percent of the face amount of securities applied for.

Payment for accepted tenders must be completed on or before Wednesday, May 15, 1974. Payments must be made at the Federal Reserve Bank or Branch or at the Bureau of the Public Debt in cash, 7-1/4% Treasury Notes of Series D-1974 or 4-1/4% Treasury Bonds of 1974, which will be accepted at par, or other funds immediately available to the Treasury by that date. Where full payment is not completed in funds available by the payment date, the allotment will be canceled and the deposit with the tender up to 5 percent of the amount of securities allotted will be subject to forfeiture to the United States.

The Treasury will construe as timely payment any check drawn to the order of the Federal Reserve Bank or the United States Treasury that is received at such bank or office by Monday, May 13, 1974, provided the check is drawn on a bank in the Federal Reserve District of the bank or office to which the tender is submitted. Other checks will constitute payment only if they are fully and finally collected by the payment date. Checks not so collected will subject the investor's deposit to forfeiture as set forth in the preceding paragraph. A check payable other than at a Federal Reserve Bank received on the payment date will not constitute immediately available funds on that date.

Commercial banks are prohibited from making unsecured loans, or loans collateralized in whole or in part by the securities bid for, to cover the deposits required to be paid when tenders are entered, and they will be required to make the usual certification to that effect. Other lenders are requested to refrain from making such loans.

All bidders are required to agree not to purchase or to sell, or to make any agreements with respect to the purchase or sale or other disposition of the securities bid for under this offering at a specific rate or price, until after the closing hour for the receipt of tenders for each particular issue.

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

FOR IMMEDIATE RELEASE May 2, 1974 3

LOCKHEED GRANTED PERMISSION TO SEEK
FURTHER LINE OF CREDIT

The Emergency Loan Guarantee Board today granted its consent to allow Lockheed to enter into an agreement with its twenty-four lending banks which would provide the company with an additional line of credit of up to $75 million, secured principally by L-1011 inventory and the capital stock of Lockheed Aircraft Services Company which will be incorporated as a wholly-owned subsidiary.

The Board also consented to allow Lockheed to pledge the stock of Lockheed Aircraft International, Inc. and grant a security interest in certain inventories arising out of foreign sales contracts to a group of surety companies in return for bonding, which is required in connection with sales to certain foreign customers.

Under the 1971 Agreement, Lockheed has borrowed $220 million from its twenty-four lending banks under Government Guarantee. Lockheed is authorized to borrow up to $250 million under Government guarantee in addition to an underlying $400 million of loans outstanding from the same banks.

The Board noted that in granting the two consents, the Government's first lien on the Pool of Collateral which secures the guaranteed loans will remain intact.

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

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FOR RELEASE AT 8:00 P.M., EDT
THURSDAY, MAY 2, 1974

STATEMENT BY THE HONORABLE CHARLES O. SETHNESS
UNITED STATES EXECUTIVE DIRECTOR OF THE
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
BEFORE THE INTERNATIONAL RELATIONS COUNCIL
KANSAS CITY, MISSOURI, MAY 2, 1974

It is my experience that the mysterious and arcane nature of international economic policy leads to a certain amount of confusion among the public about some of these problems. Indeed, many of the issues are complex and difficult and I must admit that even from my vantage point in Washington there are certain subjects which I do not deal with on a daily basis and seem elusive to me. But for all of the complexity and obtuseness of international economic questions, these are vital issues, which require diligent study and intelligent responses. To my mind it is not an exaggeration to say that the most critical issues facing our Republic today have to do with the triad of international economic issues: trade, monetary reform and economic development.

In the interdependent world of the 70's, international peace and stability depend upon an open and unrestrictive trading system, an effective monetary regime and economic development for the poor lands of the globe. If we as Americans did not in the past comprehend the full impact of interdependence and the real way in which our domestic well-being depends on international events, recent headlines about grain deals, oil cartels and famines in Africa should have jolted us to an awareness of the centrality of these issues to our future.

The part of the international financial world I am currently involved in is development, and even though I intend to discuss primarily the structure

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and function of the World Bank today, I want to reinforce the point that aid, trade and monetary reform are all parts of the same bundle of problems. To put all of this in perspective for you, I propose to review very briefly the course of U. S. involvement in international financial institutions since World War II, and the reasons for using this multilateral approach to problem solving rather than a strictly bilateral one. Then I will offer my perception of where we stand now in terms of development institutions, what this means for the U.S., and where we may be going from here.

At the conclusion of World War II, the United States understood clearly that its future health and security depended upon the establishment of an open and smoothly functioning international trading system. Based on this perception, we lobbied strongly for the establishment of functional multilateral bodies to deal with the three related areas of trade, money and development. As a result the GATT was established in Geneva to deal with trade problems and the IMF and IBRD in Washington, D. C., to work on monetary and development problems. It was true, then, and it is even more true now, that the benefits of prosperity will flow only from peace, stability and unhindered exchange of goods and services. Simply put: our economic health depends on demand for our products, supplies for our industries, stability in the international monetary realm, and development and human dignity for the poor of the world.

Continued participation in the multilateral institutions we helped found in the 1940's has significant benefits for us as Americans. Our participation in them earns dividends which we might otherwise not receive and which are critical to the problems we face. The energy crisis brought home to us as a people what we knew when we helped establish these multilateral bodies after World War II - in a truly interdependent world, institutions like the World Bank can help reduce strains and tensions and assist in finding solutions to some of our problems.

Having said this, let me describe briefly what the World Bank does and how it functions. The two most important points to clarify are that, first, the World Bank Group is really three separate institutions which are administratively related; the International Bank for Reconstruction and Development, the International Finance Corporation, and the International Development Association. And second, the money the Bank Group makes available to recipient countries is in the form of loans. This is not a grant operation. The money must be paid back, and the Group prides itself on never having had a default.

Each of the three members of the World Bank family fulfills a different purpose. As I indicated in my introduction, the original member of the Group, the IBRD, was established at the end of World War II to assist in the reconstruction of the war devastated economies of Europe. Because of the enormity of this task, however, it quickly became clear that the Bank's resources would be insufficient to cope adequately with the problem. As a result, after a small number of loans to Western European countries, responsibility for European reconstruction passed to the Marshall Plan and the Bank began to focus on development problems among the large number of countries about to achieve independence in the 1950's. This is the role it continues to play today.

The second related institution to be set up was the IFC. The IBRD is restricted by its Articles of Agreement to lending to governments or government guaranteed agencies. Since facilitating the flow of private capital is equally important to overall economic development, the IFC was formed to make equity purchases and long-term loans in private schemes in less developed countries.

Completing the World Bank family is the International Development Association, which was established at U.S. initiative in 1960.

IDA, like the IBRD, lends to governments, but it does so on easier terms than the IBRD. This reflects the fact that what we call the underdeveloped world is far from monolithic. At any one time different countries are at different stages of growth and development, and can therefore afford different maturities and rates of interest on their borrowings. IDA lends to the very poorest of these countries; those at the lowest level of development with the greatest problems. Most IDA lending goes to countries whose per capita income is below $200 per year, or about 4% of the U.S. level.

As you might expect, most fundamental distinctions among these three units of the Bank Group relate directly to the terms on which their money is provided. The IFC, for instance, provides loan money at fixed commercial rates on terms of 8 to 10 years. The IBRD lends at slightly less than commercial rates for periods of 15 to 25 years. IBRD loans currently go to countries like Korea, Brazil and Mexico, which still have need of foreign capital but which have proven their ability to "take off" effectively. Finally, IDA provides money for 50 years with only a three-quarters of one percent service charge per year. Recipients of these loans are those countries in the world such as India, Pakistan and the African countries where poverty is overwhelming and where their tremendous needs are matched by an inability to either raise or repay the bulk of their capital needs on conventional terms.

As you might expect from this, the source of funds lent by each member of the family varies. The most important distinction is between the IBRD and IDA. Given an interest rate of 7 1/4% and repayment over 20 years, the IBRD is able to support its lending program through public borrowings in the world capital markets. The process is straightforward and simple. The IBRD floats bond issues in New York, Kuwait, Frankfurt, Tehran or Tokyo, and uses the proceeds

of these issues to relend to developing countries. Because of its Triple A rating these bonds are a solid investment which are readily marketable.

IDA's much easier terms make recourse to the private capital market unfeasible. At 3/4 of 1% per year over 50 years, reflows to the institution are too slow to support public borrowings, and IDA funds must be replenished periodically by contributions from the wealthy countries of the world. We are currently in the midst of one of these replenishments; a subject I will return to later.

Having said these things about the structure and mechanism of the institutions one might reasonably ask: what is the impact of this activity, both on the recipients and on the United States as donor? In aggregate money terms the impact of the Bank and IDA programs is large. As a rough order of magnitude you might be interested to know that last fiscal year the Bank lent $2 billion and IDA lent another $1.5 billion. But simple monetary aggregates are cold figures. The more important thing to know is the kinds of work done with this money and the impact on individual human beings. In the agricultural sector, as an example, the Bank has lent most extensively for irrigation and pasture land improvement, but it also lends to build fertilizer factories, to dig village wells and to provide seeds and tractors, projects which directly help farmers expand production and improve the quality of life.

But agricultural projects have not been the only area of Bank concern. Since the problems of underdevelopment affect all sectors of the social and economic structure, the Bank Group has also found it useful to invest in basic infrastructure, including power and transportation, as well as such socially vital areas as education, population control and health. As an example of what IDA alone has done in education since its inception, the proceeds of its loans have built or improved 950 secondary and vocational schools, and 130 agricultural

and teachers colleges. Results such as these and their impact on the poor of the world are, to my mind, truly encouraging and make the continued existence of the institution important.

However compelling the humanitarian concerns and returns from development assistance may be for some, realism makes one understand that "good works" alone would not be sufficient to insure continued United States' support for this institution if there were not other good reasons to do so. Fortunately, I think we can continue to assist the poor people of the world to help themselves overcome poverty, and at the same time reap benefits for ourselves.

I have indicated already that in a broad sense, the structure of peace is strengthened by the reduction of economic inequality. Misery and deprivation provide a breeding ground for revolution and irrational international behavior. For those who have nothing to lose but their misery the cost of violence is low, and we must give them a stake in the future if we are to have stability and peace. The structure of peace depends on a rational understanding that open warfare is a net loss to all of humanity, but peace cannot be maintained unless all people can share in its benefits. The World Bank is one of the organizations making the benefits of peace palpable to those who ordinarily have no hope for the future.

In addition to strengthening the fabric for peace by reducing inequality, the Bank Group plays a further useful role as a neutral intermediary among countries. Disputes and tensions among sovereign states are inevitable. Unfortunately, in the interdependent world of today the likeli-

hood is increased that these frictions may grow into direct confrontation. Because it is respected by all for its efficiency, honesty and impartiality, the Bank Group can often play a useful role in reducing political tensions and resolving economic problems.

It is a fact that the balance of economic power between developed and underdeveloped countries is shifting. To produce the goods necessary for continued growth modern industrialized society depends on raw materials supplied by developing nations. But, just as we need commodities such as oil, copper and iron ore for our economic health, it is equally true that the less developed countries of the world need our capital, our products and our expertise if they are to make available the fruits of economic development to their citizens. Our prosperity depends on theirs, and theirs on ours. No longer will economic power be concentrated solely in the industrialized countries, but increasingly it will be spread among the industrialized states and the producers of raw materials. The World Bank is ideally established to facilitate a smooth and equitable shift in this power, and for this reason alone deserves our support.

Above and beyond these political payoffs, however, it is arguable that the financial benefits to the United States make participation in these institutions worthwhile. Over the life of this institution the Bank Group's balance of payments' impact on the U. S. has been highly favorable. This stems quite reasonably from the fact that development depends on capital equipment and expertise, much of which has been purchased in this country.

Despite the fact that the Bank's historical financial impact on the U. S. has been favorable, I would be less than honest if I did not indicate that beginning three or four years ago and up to the recent past, the sale of

American goods and services to the projects financed by the institution has not been as favorable as it should have been. We were quite concerned about this, and we brought in an independent U. S. consultant to investigate the causes of decreasing U. S. procurement through the Bank Group. We had heard criticisms of discrimination against American suppliers; we had understood that American firms could not get sufficient information on sales possibilities; and we had been informed that, on occasion, Bank specifications made it impossible for American firms to comply. The conclusions reached by the consultant were that these complaints were largely unsubstantiated. The simple facts of the matter were that American firms appeared not to be interested in bidding on many of these projects, or were not price competitive when they did. The apparent lack of interest in World Bank projects was undoubtedly based in part on a perception of price non-competitiveness by American firms, based on the situation prior to the devaluations of the dollar in 1971 and 1973. Following these changes, though, it is my feeling that American firms are once again in a position to compete effectively for World Bank procurement.

From the standpoint of the U. S. supplier, however, he must know what the sales possibilities are, in addition to knowing that he has a good competitive product. In this area our independent consultant did discover that more could be done to keep U. S. suppliers apprised of projects being considered by the World Bank. In order to overcome these informational problems, the Department of Commerce established reading rooms around the country where one can look at a list of Bank Group projects being considered over the next two years. The one nearest you here in Kansas City is at 601 East 12th Street, Room 1820. In addition to this, I might add we in our office at the World Bank stand

ready to provide information on the specific World Bank guidelines for procurement and we are always ready to assist an American manufacturer or consultant who may feel he is being unfairly treated by the Bank.

I personally am very optimistic about American industries' possibilities through the World Bank. Not only have devaluations of the dollar increased our competitiveness relative to the Japanese and Western Europeans, but those areas in which the United States is most competitive and most efficient are precisely those areas the Bank is increasingly emphasizing. We have always been a leading producer of agricultural equipment, seeds, livestock and technology, and this is one of the areas receiving increasing Bank Group attention. Education and health related projects have always been good sources for sale of U. S. goods and services, and once again these two sectors should see relatively rapid expansion within the Bank Group's program. In a similar way, I think we should anticipate continued success in providing construction equipment and consulting services, and in obtaining civil works contracts. It is essential, however, to focus on the fact that, even with information available and competitive products in the right areas, it is up to the businessman to make the effort to compete, in the field, with the right foreign government officials and project officers.

Conclusion

Obviously, it is equally essential for procurement success that the World Bank Group remain healthy and viable. The U. S. has a long standing commitment to multilateral problem solving in the economic sphere. In the case of the World Bank this commitment is based on the institution's integrity and capability, and the very real political and financial dividends we have earned from supporting it. Also, it is evident that in the current interdependent world, the Bank Group continues to be vital to alleviate poverty,

preserve peace and prosperity, and facilitate an open world trading order with full reciprocal obligations. Finally, I think it is clear we are in a period of change. There is an international redistribution of wealth going on and the balance of economic power is shifting.

But if this is roughly where we are, the question remains: where are we going? I won't pretend I can answer this question fully or precisely. What I can do, however, is outline a few concepts which should guide our forward progress. First, I am convinced that multilateralism is a proper course for the U. S. in the contemporary economic world. It provides a useful path between narrow minded autarchy and prideful interventionism. And second, a continued commitment to multilateral development assistance by the industrialized world is imperative if we are ever to coax the newly wealthy oil states to put their money to good use in alleviating hunger and want.

The disavowal of these concepts by the House of Representatives in their defeat in January of the bill to provide continued U. S. participation in IDA I found most disturbing. Not only is IDA an effective, efficient institution dedicated to assisting the poorest of the poor, but in this particular replenishment of IDA the U. S. was successful in convincing other developed countries to put in $2 for every $1 we provided. This was a much greater commitment from others than we had ever obtained before. In view of the huge needs and the benefits to us of continued support for IDA, the implications of this defeat -- if it is allowed to stand -- are sobering.

Fortunately, a bill identical to the one defeated in the House has been recently approved unanimously by the Senate Foreign Relations Committee and should reach the Floor of the Senate within the next two weeks. We are hopeful

that it will pass by a sufficiently wide margin to convince the House to reconsider its previous action. If this can be done we have a chance to save an organization which will otherwise run out of money at the end of June. I hope you agree with me that the efforts being made to assure U. S. participation in this institution are worthy, and in our best interests in a world where interdependence, even of inflation rates, impacts on all of our lives and requires concerted efforts from all of us.

Thank you.

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

May 2 1974

FOR RELEASE 6:30 P.M.

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for $1.8 billion of 52-week Treasury bills to be dated May 7, 1974, and to mature May 6, 1975, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS: (Excepting 1 tender of $20,000)

High	- 91.618	Equivalent annual rate	8.290%
Low	- 91.418	Equivalent annual rate	8.488%
Average	- 91.485	Equivalent annual rate	8.421% 1/

Tenders at the low price were allotted 30%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted
Boston	$ 21,190,000	$ 11,190,000
New York	2,312,460,000	1,347,260,000
Philadelphia	2,175,000	2,160,000
Cleveland	19,930,000	16,130,000
Richmond	9,405,000	4,405,000
Atlanta	12,540,000	6,540,000
Chicago	245,865,000	134,815,000
St. Louis	36,285,000	26,785,000
Minneapolis	9,835,000	9,835,000
Kansas City	6,260,000	6,160,000
Dallas	3,770,000	3,770,000
San Francisco	302,630,000	231,130,000
TOTALS	$2,982,345,000	$1,800,180,000 2/

1/ This is on a bank discount basis. The equivalent coupon issue yield is 9.13%.

2/ Includes $ 71,695,000 noncompetitive tenders accepted at the average price.

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

FOR IMMEDIATE RELEASE May 3, 1974

COUPON RATES ANNOUNCED FOR NEW TREASURY NOTE ISSUES

The Treasury has set a coupon rate of 8-3/4% for both the $2.0 billion of 25-1/2 month notes and the $1.75 billion of 4-1/4 year notes, the sale of which was announced on May 1. The series titles will be 8-3/4 percent Treasury Notes of Series I-1976 and 8-3/4 percent Treasury Notes of Series C-1978. The 4-1/4 year notes will be auctioned on Tuesday, May 7, and the 25-1/2 month notes will be auctioned on Wednesday, May 8.

The public should be aware that in an auction the prices bid are not necessarily at par. The average price at which noncompetitive tenders are awarded may therefore be more or less than par. Subscribers submitting noncompetitive tenders should understand that the yield they receive may be lower than the stated coupon rate.

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INFORMAL REMARKS BY
THE HONORABLE GEORGE P. SHULTZ
SECRETARY OF THE TREASURY
BEFORE THE SEVENTH ANNUAL MEETING OF THE
ASIAN DEVELOPMENT BANK BOARD OF GOVERNORS
KUALA LUMPUR, MALAYSIA, APRIL 25, 1974

Mr. Chairman, Mr. President, Fellow Governors, Ladies and Gentlemen. It is an honor for me to represent the United States at this meeting. It has been an unusual trip for me in that our delegation has traveled this long way not simply to come here and fly back again but we have had the privilege of stopping in the Philippines, Indonesia and Singapore on our way here and have had a chance to get a sense of the vitality and the forward thrust that I am sure one finds throughout Asia. I might say also that we all appreciate the warm welcome that we received here in Malaysia, and as we look around and see the beauty and the vitality here, we cannot help but be impressed.

Early this morning when I picked up my written speech and started to go through it, I looked out over the mountains from the hotel and it seemed to me the sort of misty feeling that you get as you look out over those mountains encouraged a kind of contemplative spirit. It is in that spirit that I thought rather than read the written document that I prepared, I would make some comments, to a certain extent very much along the lines of many other speakers here this morning. Mr. Chairman, if I could, I would like to file this for the record and I hope that somebody will read it. I worked hard on it. Quite a few people in my delegation worked hard on it. Some members of Congress who are here with me looked it over, although they don't ever take any responsibility for something someone in the Executive Branch would say. But I think they generally subscribed to it. So it's a statement of the U.S. position on many of the matters which we have before us.

Now I interpret what has been said here this morning as being in the spirit that we all agree that the Bank has come of age as an excellent institution. We now have 41 member countries in the Bank. President Inoue gives it strong leadership. It is well managed. We have a few problems here and there, but on the whole we have a very fine going concern. So, we don't need to spend our time talking to each other about the internal arrangements of the Bank, but rather can reflect on the environment that the Bank must operate in and which is affecting its operations so vitally.

As everyone earlier commented, the case of inflation, the oil crisis, what's happened to food prices, the monetary system and what's happening to it, trading arrangements, these are things that surround the process of economic development and so it is impossible to really think about the Bank's operation without reflecting on the interaction of these matters. So that is the way I will approach the subject and it seems to me, as a general proposition, it is extremely important for us, as people engaged in the process of development, and encouraging development that we try, insofar as we can in a time of turmoil the world economic situation, to hold in place as many elements as possible; to hold in place at least the present levels of development aid; to maintain the trading system without having it deteriorate in the face of the pressures that we see; to try to be as constructive as we can as we work on monetary problems; to maintain our sense of balance in this a time of turmoil.

Now insofar as the subject of aid and the Bank is concerned, I was pleased to be able to sign the document turning over $50 million from the U.S. of concessionary funds. We expect and hope that there will be another $50 million coming in the fiscal year that we are about to enter, and a third $50 million following that. So we are doing our utmost to contribute to the soft loan ability of the Bank.

Now I would not come here and say that this will come about for sure or that we do not have problems in the U.S. in maintaining the flow of soft funds that we believe in the Executive Branch should be maintained. We have a Congress, the Congress is responsible to the people and the Congress must vote for these funds. I'm sure that you all have read of our disappointing vote in the House of Representatives on the IDA IV Replenishment. We're working very hard on that. I've spent a lot of time on it, and so have many in the Treasury, the President, and Secretary Kissinger. We are working on it in the Senate of the United States and we feel that we will be able to turn that vote around in the Senate. We hope that we can go back to the House and complete the work on IDA IV. But it is a very difficult proposition.

The vote in the House of Representatives came at a bad time. We didn't manage it very well to allow it to come up just at that time. It came up in January when we were at the height of our oil crisis in the United States; when there were long lines waiting at all the gas stations. It seemed as though this was a proposal for the United States to put up a large sum of money which would, so to speak, pass through

the hands of the poorer developing countries into the hands of the oil-exporting countries. And that was not a very appealing proposition.

Now, I think we have successfully made the argument that these funds, after all, do go to projects -- not to build up the foreign exchange position of recipient nations, but to finance projects -- and that we must continue that effort. And I believe that since we have right on our side and since we have the interests of the United States in maintaining a healthy world economy, that in the end we will prevail. But, it will be a struggle.

I might say that we have an outstanding delegation from our Congress who have come with me to this meeting, and they're sitting behind me here and I think that fact by itself suggests the interest that is present in the Congress and, of course, the interest in the United States in this part of the world and our desire to be a responsible and helpful partner here.

On the subject of capital flows, I would like to point up, however, a number that came out of World Bank statistics that seems to me to put some perspective at least on some of the capital flow problems. According to the World Bank figures, private capital raised by developing countries in 1971 amounted to about $700 million -- that is borrowings on the Eurodollar market and so forth -- $700 million. In 1973, private borrowing by developing countries amounted to $5.6 billion -- an eight-fold increase -- a gigantic increase.

Now, of course, that is not concessionary funds. That does not relieve the necessity for concessionary funds; however, it does suggest that our regular capital markets, if kept healthy and kept open as we are trying to do everything we can to help do in the United States, that these private capital markets can be helpful and that we should pay attention to them.

Let me just touch briefly on the subjects of monetary reform, the situation on the Trade Bill in the United States, on inflation and on energy as topics that all who have spoken so far have touched on and I imagine that each person who speaks subsequently will touch on.

I think we do have a good opportunity in the area of monetary reform ahead of us. Of course, we are not going to have a completed negotiated package as perhaps we hoped a year and a half or so ago when the Committee of Twenty started

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its deliberations. But we do have a more flexible system in place. It has withstood perhaps the most traumatic event to strike the monetary system in decades with this sudden oil crisis and, while exchange rates of course have shifted around and continue to, the system as a system has held up. So we have in place something that is at least working. And I think that with an effort at the meeting of the Committee of Twenty coming up in June, it should be possible to agree on a Council of Twenty in the IMF. It should be possible to agree on a guideline for the adjustment process including whether one is talking about a floating system or a par value system or the kind of in-between system that we now have where we have intervention on an ad hoc basis. It should be possible to agree on at least the temporary characteristics of the SDR and at least a broad outline of monetary reform that will allow for an orderly evolution of the system over time.

So, I think there is an opportunity there which, if seized, will provide a little more structure and help to solidify the setting in which the development process takes place and in which the work of the Asian Bank and the other development banks takes place.

The area of trade arrangements is also under review and I believe that is constructive. From the standpoint of the United States, we have a Trade Bill in our Congress -- it's passed the House of Representatives; it is before the Senate. I can't say for sure whether it will pass or not. There are some elements in it that are extremely difficult. But it is worth noting in this setting that if it passes, it will surely have a broad provision in it providing for preferential treatment of goods imported from developing countries. And I have been pleased to note that this particular provision in the Bill is not particularly controversial. So it is very likely to be in the Bill should the Bill pass.

What is getting a great deal of attention in the United States is, in a sense, the other side of the coin of what we generally talk about when we discuss the trading system. We are always negotiating about tariff barriers and quotas and things like that, and trying to get them down in the interests of access to markets. But what has struck everybody so strongly and which has interested our Congress a great deal is the problem of access to supply. And this, of course, has taken on great significance as people worry about oil and other raw materials -- the U.S. being both a supplier and a consumer of many of these commodity areas.

In many ways, it seems to me, the most serious problem that we face, whether developed or developing countries, certainly it is a problem in the efforts of the Bank to promote sound economic development, is the problem of inflation. It's a worldwide problem -- not just a problem for a few countries. We have had a 10 percent rate of inflation in the United States in the last year. It is an unheard-of phenomenon. We certainly intend to work on it and work on it hard. We take the problem very seriously. I believe we must maintain strong budget discipline, strong monetary discipline as at least necessary conditions for dealing with inflation. But we also need to work very hard on the problem of the supply of those commodities that have been going up most rapidly in price.

Now in our inflation of the past year, about 55 percent of the increase in our cost of living index is attributable to the rise in food prices -- 55 percent. So we have been, in the United States, on an all-out drive to increase production. We have, as I'm sure everyone here is aware, kept our markets open to all comers trhoughout this period of scarcity and while we are trying to increase supply. We had a brief period where there were export controls on soy beans that arose from a situation where we found that more soy beans had been sold for export than there were soy beans. The price was just going up through the ceiling and a brief period of export controls served to puncture that speculative balloon and bring the prices down. Then the controls were removed and, as of now, there are no export controls on food products.

I think, for example, our wheat market was the only wheat market completely open through this period. And we intend to keep our markets open. We intend to be a reliable supplier and, in a sense, so to speak, make our citizens pay the same price as the citizens of other countries for what is produced by American agriculture.

This effort to increase production has met with success and the result can be seen in the prices. I think as I have gone around that people don't quite appreciate what has been happening to the prices of basic food raw materials. Now, these developments have been slow in coming and some of them are recent, but nevertheless, taken in percentage terms they are quite dramatic.

I asked to get wired to me the latest prices -- these I'll read in terms of the closing prices on April 23 in the big United States markets for key crops. Take the case of soy beans. About a year ago the price in Chicago per bushel

was $6.53. It rose during this dramatic period that I mentioned to $12.27 per bushel -- a gigantic price increase. That balloon was punctured. Yesterday, soy beans closed at $5.53 -- a decline of 55 percent from that high point -- 55 percent decline in price. Of course, the soy bean meal and soy bean oil follow that picture.

Take the case of wheat. Wheat reached the neighborhood of $5.30 during 1973 and in the early part of 1974, and there was great concern around the world about it. The price of a certain grade of wheat per bushel reached $6.20, a standard grade that we calibrate these markets by. Yesterday, that same grade of wheat closed in price at $4.00 -- a decline of 25 percent.

Corn, taking the same kind of comparison, down 19 percent. Cattle, per 100 weight in Omaha a year ago were $44.80. It got up to $56.75 per 100 weight. Yesterday, it closed at $40.62 -- down 28 percent from that high point. Hogs, down 51 percent from their high point. Broilers, of which we eat a lot in the United States, got up as high as $.74 per pound. Yesterday closed at $.37 per pound -- a 50 percent decline.

So the strategy of increasing production, increasing supplies, has had an impact, and I must believe that these prices, these declines, are going to be showing themselves at retail in the United States and that will be reflected in the prices paid around the world. I might say on a non-food item that I happen to have here, cotton, which we're all so interested in, is down 27 percent from its high which was reached on September 21.

So, in terms of inflation, I offer that bit of information about food prices. I would like to call it good news. We seem to live in a world where no one will accept good news -- we're so accustomed to bad news. But nevertheless, I think there is some heart that can be taken from those figures.

Let me turn very briefly to the subject of energy. I said that food was responsible for 55 percent of the increase in prices in the U.S. in the last year. Twenty-five percent of it was attributable to petroleum prices. So, between those two items, we account for 80 percent of our inflation.

Here, too, I think we have pretty good grounds for believing that the peaks of petroleum prices are behind us. As the Minister from Singapore noted, we have seen a four-fold increase -- and that is certainly gigantic.

At least, it seems to me clear that we're not going to see another four-fold increase in the next year. In fact, my estimate is that oil prices will be lower at the end of the year than they are now mainly because in our estimate there has been a sharp decline in the rate of consumption as a result of the high prices and as a result of the embargo -- about an 8 percent decline in the rate of consumption. And with production moving toward its pre-embargo levels, we now have a situation where the rate of production is higher than the rate of consumption, and that should lead to a softening of prices. I think we see, as you look around carefully in these markets, we see evidence here, there and elsewhere that that is indeed the case.

For the longer run, it seems very evident to me in the United States, and I have the impression all around the world, that these high prices are encouraging an extraordinary burst of activity to increase the supply of petroleum, to find alternate sources of energy and to find new ways of doing such things as turning coal into gas and moving it to the consumer. We see a great burst of creative effort being called forth here with some of our best scientific minds, our best engineering talent, our top managerial talent concentrating on this subject. I think, as in other cases, we will see breakthroughs. I would like to say that if that happens -- I would prefer to say when it happens but I'll be cautious and say if it happens -- and there is some knowledge that we are able to generate and can share, we want to share that, particularly with the poorer countries, which have been hit so cruelly by this increase in prices. We would want to share it, and perhaps there is some way in which working with the Asian Development Bank we could make whatever we find out available.

I do think the energy crisis poses certain points for the Bank to consider as has been suggested by other ministers here. It seems to me first of all in the Bank, that we should exercise great care in the use of concessionary funds. We should try to direct them to the poorest among us, because they are such a scarce resource and so important right now. Secondly, we ought to look with favor on energy type projects that will help a country, a developing country that is feeling this problem greatly, to develop energy sources of its own where it can find them. It seems to me these are points that might be kept in mind in the management of the Bank. I endorse very strongly, as I wind up here, the comments that our Chairman, Mr. Chavan, made about the importance of working cooperatively on these problems and as others have made here.

I think that Finance Ministers have very special contributions to make to the solution of these problems. It is up to us to get in and to try to make our contributions to solving these problems.

This is, I am sure, my last opportunity to talk to a group of Finance Ministers in my role as Secretary of the Treasury of the United States, as I will probably be leaving office very shortly. I am very pleased that that particular opportunity comes at a meeting such as this where we have Finance Ministers gathered to discuss the subject of development. I think as we look around we see that in this great trade union of Finance Ministers which I have felt has a certain closeness to it, that there are people of great distinction all around this table. I am very pleased to say that in my contacts with you and others around the world I have learned a great deal and I want to express my appreciation for the cooperation and instruction that I have gotten from all of you. I want to pay special respects to President Inoue and his colleagues in the Bank and, of course, most of all to thank my fellow Finance Ministers.

As I said, this is a good setting for me to make my last talk to you because it seems to me that in this setting we are helped to avoid this feeling that you sometimes get when you sit in your office -- at least, I do -- going over numbers about balance of payments and prices and this, that and the other -- you can get yourself in the mood of thinking that these numbers that you are looking at are reality. And we know they are not reality. They only stand for the things that we are really interested in. That fact comes through particularly in a meeting such as this one where we are talking about development. We realize that these numbers that we express ourselves in are only reality -- only meaningful -- as they really stand in our own minds for the human aspirations and the human needs that we all seek to serve.

I would like to close by saying that as a member of the Finance Ministers' Union and adopting the slogan, "Once a member, always a member," even though I am leaving office, I want to thank you. I will continue to follow the work of the Bank with great interest and enthusiasm and will be around on the edges trying to be as helpful as I can as a former member of the club.

Thank you very much.

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FOR IMMEDIATE RELEASE MAY 6, 1974

Office of the White House Press Secretary

THE WHITE HOUSE

The President today announced the designation of four positions in the Federal Government whose incumbents will serve as Members of the Board of Directors of the Federal Financing Bank. They are:

The Deputy Secretary of the Treasury
The Under Secretary of the Treasury for Monetary Affairs
The General Counsel of the Treasury
The Fiscal Assistant Secretary of the Treasury

The President also created by Executive Order the Federal Financing Bank Advisory Council and designated the Secretary of the Treasury as its Chairman. The members are:

The Secretary of the Treasury
The Secretary of Agriculture
The Secretary of Commerce
The Secretary of Health, Education, and Welfare
The Secretary of Housing and Urban Development
The Secretary of Transportation
The President of the Export-Import Bank of the United States
The Postmaster General

The Federal Financing Bank was created by the Federal Financing Bank Act of 1973 (Public Law 93-224 of December 29, 1973) to assure coordination of Federal and federally assisted borrowing programs through a single agency.

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FOR IMMEDIATE RELEASE MAY 6, 1974

Office of the White House Press Secretary

THE WHITE HOUSE

EXECUTIVE ORDER

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ESTABLISHING THE FEDERAL FINANCING BANK ADVISORY COUNCIL

By virtue of the authority vested in me as President of the United States of America, it is hereby ordered as follows:

Section 1. There is hereby established the Federal Financing Bank Advisory Council. The Council shall consist of:

(1) The Secretary of the Treasury (Chairman).

(2) The Secretary of Agriculture.

(3) The Secretary of Commerce.

(4) The Secretary of Health, Education, and Welfare.

(5) The Secretary of Housing and Urban Development.

(6) The Secretary of Transportation.

(7) The President of the Export-Import Bank of the United States.

(8) The Postmaster General.

Sec. 2. The Council shall provide advice and assistance to the Board of Directors of the Federal Financing Bank established by the Federal Financing Bank Act of 1973 (Public Law 93-224; 87 Stat. 937) concerning the administration of that act. It shall also serve as a coordinating forum to insure a broader understanding of, and support for, the Bank.

Sec. 3. The Department of the Treasury shall, to the extent permitted by law, provide administrative support for the Council.

RICHARD NIXON

THE WHITE HOUSE,

May 6, 1974

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

FOR RELEASE AT 8:30 A.M.
TUESDAY, MAY 7, 1974

EXCERPTS FROM REMARKS OF THE HONORABLE EDGAR R. FIEDLER
ASSISTANT SECRETARY OF THE TREASURY FOR ECONOMIC POLICY
BEFORE THE
NATIONAL ASSOCIATION OF PURCHASING MANAGEMENT
MIAMI BEACH, FLORIDA
MAY 7, 1974

The major economic policy issue of the day is whether or not taxes should be cut to stimulate the economy. The proponents of a tax cut tell us that the economy is in a serious recession, with the unemployment rate headed toward 6 1/2 percent or more. And they hold out little hope that the economy will right itself at an early date without a major injection of stimulus from the Government.

This view of economic prospects and policy suffers several shortcomings. For one thing it takes an unduly pessimistic view about the course of production and employment. As always, there is a risk that the recent economic weakness will deepen and spread. At present, however, that risk looks small; the odds clearly favor a renewed pattern of growth in the second half of 1974.

More significantly, the proponents of a tax cut have misread the nature of the present situation. They evidently do not recognize how narrow the weakness is, how it has focused almost entirely on the automobile industry and a few other sectors of the economy that were hit hard by the energy crisis, plus housing. Correspondingly, they fail to see how close to full capacity most of the economy is operating. Shortages of materials are still the major problem faced by businessmen -- not lack of sales. In fact, despite the leveling off of their new orders over the past six months, durable goods

manufacturers are still seeing orders come in at a higher rate than they can ship out finished products. Thus their backlogs of unfilled orders are still rising. This is hardly an environment that calls for more economic stimulus.

Consider what would happen if taxes were cut in this situation. Would consumers spend the extra dollars for big cars, or in other areas where unused capacity is available, and thus where production and employment could be expanded? Not likely, not likely at all. What they would do, in all probability, is to spend a good part of the money for things that are not in excess supply, i.e., where production is already at full capacity. In this situation, then, the extra spending that a tax cut would generate would not do much to boost production and employment. Instead, it would simply mean more dollars chasing goods that are already in limited supply -- which simply means more inflation.

And it is this downgrading of the inflation problem that is the most serious shortcoming of the tax cut proposal. It is true that, with or without a tax cut, we are likely to see a slowing of the inflation rate over the course of 1974, as a good part of the surge of commodity inflation gets behind us. But even with the most favorable developments on the price front, we will still face a high rate of inflation going into 1975. Our expectations are that inflation will still be around 5-6 percent at year-end, and this is just too high! A tax cut would be a clear and present danger to achieving even this degree of improvement.

The present is another of those crucial junctures where there are sharply divided views about the appropriate course for economic policy. At such junctures in the past, we have almost always come down on the side of too much economic stimulus, while ignoring the inflationary consequences. Under present circumstances to come down on that side again would be a bad mistake. The risk of serious and prolonged unemployment is small and the risk of accelerating the 5 or 6 percent underlying rate of inflation is large. Until and unless we see evidence of more significant economic weakness, we should continue the policy of moderate economic restraint that is now in place.

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

FOR RELEASE 6:30 P.M. May 6, 1974

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 May 9, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing August 8, 1974		26-week bills maturing November 7, 1974	
	Price	Equivalent annual rate	Price	Equivalent annual rate
High	97.737 a/	8.953%	95.477 b/	8.947%
Low	97.707	9.071%	95.439	9.022%
Average	97.716	9.036% 1/	95.447	9.006% 1/

a/ Excepting 3 tenders totaling $2,300,000; b/ Excepting 3 tenders totaling $175,000

Tenders at the low price for the 13-week bills were allotted 38%.
Tenders at the low price for the 26-week bills were allotted 5%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 54,970,000	$ 35,665,000	$ 35,405,000	$ 17,180,000
New York	3,236,585,000	2,065,830,000	2,750,470,000	1,532,345,000
Philadelphia	36,810,000	36,045,000	14,895,000	12,310,000
Cleveland	66,320,000	49,115,000	75,845,000	36,095,000
Richmond	47,150,000	32,955,000	27,840,000	20,450,000
Atlanta	37,425,000	34,940,000	22,845,000	21,375,000
Chicago	247,925,000	62,350,000	311,305,000	51,015,000
St. Louis	66,475,000	45,760,000	51,325,000	30,825,000
Minneapolis	9,865,000	4,865,000	8,395,000	4,155,000
Kansas City	47,300,000	43,600,000	33,275,000	27,760,000
Dallas	48,555,000	23,750,000	23,655,000	16,665,000
San Francisco	145,420,000	65,910,000	112,840,000	29,830,000
TOTALS	$4,044,800,000	$2,500,785,000 c/	$3,468,095,000	$1,800,005,000 d/

c/ Includes $ 492,350,000 noncompetitive tenders accepted at the average price.
d/ Includes $ 272,200,000 noncompetitive tenders accepted at the average price.
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 9.38% for the 13-week bills, and 9.57 % for the 26-week bills.

Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

FOR IMMEDIATE RELEASE May 7, 1974

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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 $4,500,000,000, or thereabouts, to be issued May 16, 1974, as follows:

91-day bills (to maturity date) in the amount of $2,600,000,000, or thereabouts, representing an additional amount of bills dated February 14, 1974, and to mature August 15, 1974 (CUSIP No. 912793 UK0), originally issued in the amount of $1,799,305,000, the additional and original bills to be freely interchangeable.

182-day bills for $ 1,900,000,000, or thereabouts, to be dated May 16, 1974, and to mature November 14, 1974 (CUSIP No. 912793 UY0).

The bills will be issued for cash and in exchange for Treasury bills maturing May 16, 1974, outstanding in the amount of $4,303,280,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,518,280,000. These accounts may exchange bills they hold for the bills now being offered at the average prices of accepted tenders.

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, May 13, 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 and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions

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with respect to Government securities and borrowings thereon may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others 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 securitie 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 respe 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 accepte in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on May 16, 1974, in cash or other immediately available funds or in a like face amount of Treasury bills maturing May 16, 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

FOR RELEASE 6:30 P.M. May 7, 1974

RESULTS OF TREASURY NOTE AUCTION

The Treasury has accepted $1.75 billion of the $3.5 billion of tenders received from the public for the 4-1/4 year 8-3/4% notes auctioned today. The range of accepted competitive bids was as follows:

	Price	Approximate Yield
High	100.68 1/	8.56%
Low	99.96	8.76%
Average	100.07	8.73%

1/ Excepting 4 tenders totaling $730,000

The $1.75 billion of accepted tenders includes 10% of the amount of notes bid for at the low price, and $0.8 billion of noncompetitive tenders accepted at the average price.

In addition, $0.6 billion of the notes were allotted to Federal Reserve Banks and Government accounts at the average price, in exchange for securities maturing May 15.

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

NEWS

TELEPHONE 634-5248

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FOR RELEASE
MAY 10, 1974, A.M.s

REVENUE SHARING DATA MADE PUBLIC TODAY

DATA USED TO CALCULATE FISCAL YEAR '74 AND FISCAL YEAR '75 REVENUE SHARING PAYMENTS TO 38,436 STATES AND LOCAL GOVERNMENTS WERE MADE PUBLIC IN TWO VOLUMES RELEASED BY THE TREASURY DEPARTMENT'S OFFICE OF REVENUE SHARING TODAY.

ONE BOOK LISTS FOR EACH UNIT OF GOVERNMENT THE DATA USED IN MAKING FINAL ALLOCATIONS OF FISCAL YEAR 1974 FUNDS. CHANGES HAD BEEN MADE DURING THE PAST TEN MONTHS, BASED ON A DATA IMPROVEMENT PROGRAM INSTITUTED LAST FALL BY THE OFFICE OF REVENUE SHARING AS WELL AS THE U. S. CENSUS BUREAU'S ON-GOING QUALITY REVIEW. THE FIGURES USED TO CALCULATE FINAL 1974 ALLOCATIONS INCLUDE 1970 POPULATION DATA, 1969 PER CAPITA INCOME DATA AND FISCAL YEAR 1972 INTERGOVERNMENTAL TRANSFERS AND ADJUSTED TAXES.

A SECOND VOLUME LISTS THE DATA USED EARLIER THIS MONTH TO COMPUTE INITIAL ALLOCATIONS OF FISCAL YEAR 1975 MONEY. FISCAL YEAR 1973 INTERGOVERNMENTAL TRANSFER AND ADJUSTED TAX DATA ARE INCLUDED, ALONG WITH 1970 POPULATION AND 1969 PER CAPITA INCOME FIGURES.

"WE DO NOT ANTICIPATE HAVING TO MAKE MANY SIGNIFICANT CHANGES IN THE DATA USED TO CALCULATE 1975 AMOUNTS," GRAHAM W. WATT SAID IN RELEASING THE FIGURES TODAY. "THESE NUMBERS HAVE ALREADY BEEN PUT THROUGH AN EXTENSIVE REVIEW-AND-IMPROVEMENT PROCEDURE WITH RECIPIENT GOVERNMENTS THEMSELVES," HE SAID.

BOTH BOOKS CONTAIN DATA FOR STATE GOVERNMENTS AS WELL AS FOR THE COUNTIES, CITIES, TOWNS, TOWNSHIPS, INDIAN TRIBES AND ALASKAN NATIVE VILLAGES THAT RECEIVE SHARED REVENUES.

EACH BOOK INCLUDES A SPECIAL LIST OF PLACES NOT ELIGIBLE TO RECEIVE REVENUE SHARING MONEY. FOR THE MOST PART, THESE WILL BE PLACES THAT WERE INCORPORATED TOO LATE TO SHARE IN THE FUNDS TO BE DISTRIBUTED FOR A GIVEN YEAR, OR THAT DISINCORPORATED BEFORE THE YEAR'S ALLOCATIONS WERE MADE.

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AMOUNTS OF GENERAL REVENUE SHARING MONEY TO BE PAID EACH STATE AND GENERAL-PURPOSE UNIT OF LOCAL GOVERNMENT ARE CALCULATED BY COMPUTER, USING DATA SUPPLIED BY THE U. S. BUREAU OF THE CENSUS BASED ON INFORMATION PROVIDED BY THE RECIPIENT GOVERNMENTS THEMSELVES.

THE GENERAL REVENUE SHARING PROGRAM IS AUTHORIZED BY THE STATE AND LOCAL FISCAL ASSISTANCE ACT OF 1972, SIGNED INTO LAW BY PRESIDENT NIXON IN OCTOBER 1972. DURING A FIVE-YEAR PERIOD THAT ENDS WITH DECEMBER 1972, $30.2 BILLION IN FEDERALLY-COLLECTED REVENUES WILL BE RETURNED TO MORE THAN 38,000 UNITS OF STATE AND LOCAL GOVERNMENT AT THE RATE OF APPROXIMATELY $6 BILLION EACH YEAR. NEARLY $13 BILLION HAS ALREADY BEEN DISTRIBUTED THROUGH GENERAL REVENUE SHARING.

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Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR RELEASE AT 6:30 P.M. May 8, 1974

RESULTS OF TREASURY'S NOTE AND BOND AUCTIONS

The Treasury has accepted from the public $2,000 million of tenders for the 8-3/4% 25-1/2 month notes and $300 million of tenders for the 8-1/2% 25 year bonds auctioned today. Total tenders received were $3,239 million for the notes and $895 million for the bonds.

The range of accepted competitive bids for the notes was as follows:

	Price	Approximate Yield
High	100.57 1/	8.43%
Low	99.87	8.79%
Average	100.00	8.73% 2/

1/ Excepting 1 tender of $40,000
2/ The yield is less than 8.75% because interest for the period from May 15 to June 30, 1974, will be paid with the first full six-month interest payment on December 31, 1974.

The lowest price accepted for the bonds was 102.85 which is the price to be paid by all successful bidders. This price results in a yield of 8.21% to the first callable date, May 15, 1994, and 8.23% to maturity.

Accepted tenders for the notes include 4% of the amount bid for at the low price, and $716 million of noncompetitive tenders accepted at the average price.

Accepted tenders for the bonds include 82% of the amount bid for at the low price, and $115 million of noncompetitive tenders.

In addition to the amounts allotted to the public, $656 million of the notes and $279 million of the bonds were allotted to Federal Reserve Banks and Government accounts in exchange for bonds maturing May 15.

May 9, 1974

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STATEMENT BY GEORGE P. SHULTZ

I am particularly pleased and proud to announce my affiliation on a full-time basis with the Bechtel organization. Reporting directly to the Chairman, I will be a member of the Board of Directors and of the Executive and Finance Committees, with the title of Executive Vice President.

They have graciously agreed that it would also be appropriate for me to have a part-time affiliation with some other organizations and to consult on Government policies from time to time. Accordingly, I am also proud to retain my tie to the faculty of the University of Chicago and thereby to the city of Chicago.

FOR IMMEDIATE RELEASE 22 MAY 9, 1974

Office of the White House Press Secretary

THE WHITE HOUSE

The President today announced his intention to nominate Edward C. Schmults, of Chevy Chase, Maryland, to be Under Secretary of the Treasury. He will succeed Jack Franklin Bennett, who will be nominated to be Under Secretary of the Treasury for Monetary Affairs.

Mr. Schmults has served as General Counsel of the Treasury since May 25, 1973. From 1958 to 1973 he was with the law firm of White and Case in New York, New York, where he specialized in corporate and securities law. He became a partner in the firm in 1965.

He was born on February 6, 1931 in Paterson, New Jersey. Mr. Schmults received his B.S. degree from Yale University in 1953 and was graduated cum laude from the Harvard University School of Law in 1958. He served as an officer in the U.S. Marine Corps from 1953 to 1955. Mr. Schmults is the author of a number of articles and has lectured at the Practicing Law Institute on business acquisitions and securities laws.

Mr. Schmults is married to the former Diane Beers. They have two sons and one daughter.

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FOR IMMEDIATE RELEASE MAY 9, 1974

Office of the White House Press Secretary

THE WHITE HOUSE

The President today announced his intention to nominate Jack Franklin Bennett, of Greenwich, Connecticut, to be Under Secretary of the Treasury for Monetary Affairs. He will succeed Paul A. Volcker, who has resigned.

Mr. Bennett has been Under Secretary of the Treasury since March 14, 1974, and served from September 1971 as Deputy Under Secretary of the Treasury for Monetary Affairs. From 1969 to 1971 he was Vice President and Director of Esso International, Inc., in New York, New York, after serving as General Manager of Humble Oil & Refining Supply Company in Houston, Texas, from 1967 to 1969.

He was born on January 17, 1924, in Macon, Georgia. Mr. Bennett received his B.A. degree from Yale University in 1944 and his M.A. in 1949 and Ph.D. in 1951 from Harvard University. After serving in the U.S. Navy from 1942 to 1946 he was employed as an economist with the United States Military Government in Germany for one year. From 1949 to 1951 he had a teaching fellowship at Harvard University.

From 1950 to 1957 he was employed as an economist with the Federal Government, except for one year with the Standard Oil Company in New York as a senior foreign exchange analyst. He rejoined Standard Oil Company in 1957 and served with the company as Treasurer of Esso Petroleum Company, Ltd., London; Executive Assistant to the Chairman; Assistant Treasurer, Chief Economist, and Manager of the Corporate Planning Department. He is a member of the Council on Foreign Relations and the Conference of Business Economists.

Mr. Bennett is married to the former Elizabeth Goodwin, of Sunderland, Massachusetts. They have four children and reside in Washington, D.C.

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FOR IMMEDIATE RELEASE 24 MAY 9, 1974

Office of the White House Press Secretary

THE WHITE HOUSE

The President today announced his intention to nominate Frederick L. Webber, of Alexandria, Virginia, to be Deputy Under Secretary of the Treasury. His area of responsibility will be legislative affairs. Upon his confirmation by the Senate and appointment to the position, he will be designated Assistant Secretary of the Treasury. He will succeed William L. Gifford, who has resigned.

Mr. Webber has served since June 5, 1973, as Special Assistant to the President for Legislative Affairs. From January to June 1973 he was Vice President for Employee Relations with the American Paper Institute of New York, New York and Washington, D. C. From 1970 to December 1972 he was Special Assistant to the Secretary of Labor for Legislative Affairs. During 1966-67 Mr. Webber was legislative liaison for the National Forest Products Association in Washington, D. C., and from 1968 to 1970 he was Administrative Assistant to Congressman John Dellenback of Oregon.

He was born on January 8, 1938, in Portland, Maine. Mr. Webber was graduated from Yale University in 1961 and attended graduate school at American University. From 1961 to 1965 he served as an officer in the U.S. Marine Corps.

Mr. Webber is married to the former Ann Bouker. They have three children and reside in Arlington, Virginia.

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

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FOR IMMEDIATE RELEASE May 9, 1974

STATEMENT BY SECRETARY OF THE TREASURY
WILLIAM E. SIMON

I am delighted that the President today announced his intention to nominate three outstanding men for vitally important Treasury positions, and I hope that the Senate will speedily confirm all three.

Jack F. Bennett will succeed Paul A. Volcker as Under Secretary for Monetary Affairs. As Mr. Volcker's Deputy for several years, and more recently as Under Secretary, Mr. Bennett's performance on international monetary and financial matters and his assistance to the Secretary on East/West trade and economic problems have been outstanding. We are very fortunate to have his skills and experience to draw upon in the area of international monetary reform.

Edward C. Schmults has been named the Under Secretary of the Treasury succeeding Mr. Bennett. As General Counsel of the Treasury he played an active role in tax reform, securities industry legislation and the Northeast Railway Act. His insights and leadership have contributed significantly to the day-to-day operation of the Department, and I am delighted that we will be able to use his talents on an even wider variety of Treasury projects.

Frederick L. Webber was named to be Deputy Under Secretary for Congressional Relations succeeding William Gifford. Mr. Webber comes to Treasury after serving in the White House as Special Assistant to the President for Legislative Affairs and previously as Special Assistant to the Secretary of Labor for Legislative Affairs. His extensive experience with the Congress will be very helpful as we work with them in the areas of tax reform and IDA.

(Biographies attached)

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BIOGRAPHY

JACK FRANKLIN BENNETT

Jack Franklin Bennett, of Greenwich, Connecticut, was nominated as Under Secretary of the Treasury for Monetary Affairs on May 9, 1974. He had been Under Secretary since March 15, 1974.

Mr. Bennett was born January 17, 1924 in Macon, Georgia. He received his B.A. degree from Yale University in 1944, and his M.A. (1949) and Ph.D. (1951) degrees from Harvard University.

After service as a Communications Officer in the U.S. Navy from 1943 to 1946, Mr. Bennett was employed as a Commercial Specialist with the Joint U.S./UK Export-Import agency in Germany for one year. From 1949 to 1951 he held a teaching fellowship in economics at Harvard University. For the next four years he held various positions in the fields of economics with the State Department and the Executive Office of the President. In 1955 he joined the Standard Oil Company (New Jersey), serving at various times as Assistant Treasurer; Executive Assistant to the Chairman; Treasurer of Esso Petroleum Company, Limited, in London; General Manager of the Supply Department of the Humble Oil and Refining Company in Houston, Texas and finally as Vice President and Director of Esso International, Inc.

Mr. Bennett is a member of the Council on Foreign Relations and the Conference of Business Economists. He is also the author of several articles on international finance and investment in publications, including: Foreign Affairs, Journal of Finance, and Economia Internazionale.

Mr. Bennett is married to Shirley Elizabeth Goodwin of Sunderland, Massachusetts. They have four children and reside in Washington, D. C.

May 9, 1974

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May 9, 1974

BIOGRAPHY

EDWARD CHARLES SCHMULTS

Edward Charles Schmults was nominated as Under Secretary of the United States Treasury on May 9, 1974. He had been General Counsel of the Department since June 4, 1973.

Mr. Schmults was born February 6, 1931 in Paterson, New Jersey, the son of Edward M. and Mildred E. Schmults. He received a bachelor of science degree from Yale University in 1953, and a bachelor of law (cum Laude) from Harvard Law School in 1958.

After graduation from Law School, he joined the law firm of White & Case, and became a partner July 1, 1965, specializing in corporate and securities law. He had been with the firm until May 1973, when he was appointed consultant to the former General Counsel, Judge Samuel R. Pierce, Jr.

Mr. Schmults was an officer of the United States Marine Corps, having been discharged from the Reserves as a Captain in 1962. He was also a director of Holly Sugar Corporation, and has been a lecturer at Practicing Law Institute on Business Acquisitions and Securities Laws.

He has written chapters appearing in several books concerning corporations and securities, and has co-authored articles in The Business Lawyer.

He married the former Diane Beers (Wellesley College, BA 1958) in 1960. They have three children, one daughter and two sons and reside in Chevy Chase, Md.

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May 9, 1974

BIOGRAPHY

FREDERICK L. WEBBER

President Nixon nominated Frederick L. Webber as Deputy Under Secretary of the Treasury Department for Congressional Relations on May 9, 1974. He had been Special Assistant to the President for Legislative Affairs at the White House, specializing in relations with the United States Senate.

Previously, Mr. Webber was Vice President for Employee Relations with the American Paper Institute of New York, New York, and Washington, D.C. From 1970 until December 1972, he was Special Assistant to the Secretary of Labor for Legislative Affairs. During 1966-67 Mr. Webber was legislative liaison for the National Forest Products Association in Washington, D.C., and from 1968 to 1970 he served as Administrative Assistant to Congressman John Dellenback of Oregon.

He was born on January 8, 1938, in Portland, Maine. Mr. Webber was graduated from Yale University in 1961 and attended graduate school at American University. From 1961 to 1965 he served as an officer in the U.S. Marine Corps.

Mr. Webber is married to the former Anne Bouker. They have three children and reside in Alexandria, Virginia.

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May 10, 1974

An Analysis of

Pending Pension Legislation

by John H. Hall

Deputy Assistant Secretary for Tax Policy
Department of the Treasury

from a recent speech to the

Association for Advanced Life Underwriting
Washington, D. C.

We appreciate the opportunity to share with you the Treasury's views on Pension Reform. Having spent many long, exhausting months on this marathon pension bill, I am now quite ready for a pension of my own.

Pensions, however, like other forms of compensation, do not grow in cornucopias from which they can be caused to pour forth by a simple legislative decree. The American private pension system is, and will remain, voluntary. Unless the employer is able and willing to put up the money, there will be no pension.

The beginning of wisdom in all matters of pension reform, therefore, is that reform must be achieved within an overall cost framework which does not kill the goose which lays the golden egg, which destroys neither the employer's willingness or his ability to put up the money. Now everybody seems to agree with this principle, if you ask them, but it has received very little emphasis in some quarters in the course of legislative consideration of pension reform.

I never cease to be amazed at the bewildering variety of private pension arrangements in this country. Seeking to pen this entire unruly herd in one legislative corral has been a difficult but enlightening task.

Both the Senate and the House have now passed their respective versions of pension reform. The Senate originally

attached 295 pages of pension reform legislation as an amendment to an obscure and humble little House bill, H.R. 4200, and sent H.R. 4200 back to the House. The House has since ignored H.R. 4200. However, after a great deal of in-fighting over jurisdiction between the House Education and Labor Committee and Ways and Means Committee, the House passed its own pension reform bill under the designation H.R. 2. In length, the House outdid the Senate by about 55 pages.

The Senate subsequently, intercepted H.R. 2 and voted to amend it by substituting the text of the Senate pension reform bill, H.R. 4200, for the text of H.R. 2. This finally made a parliamentary honest woman of the pension bill. Whether what emerges from conference is closer to the Senate or the House version, the bill will directly affect half the nation's work force and will require extensive amendments of virtually every qualified plan in the country.

All of the House Ways and Means Committee consideration of the pension bill has been done in public under its new open doors procedures, which may be more beneficial to lobbyists than Treasury. We did not have the chance to express our views of the public interest to the Committee as often as used to be customary in the old Executive sessions. When we did seize a chance to speak, it was usually to object to something.

What do we at the Treasury complain about when we get a chance to speak to the Ways and Means Committee, or anyone else who will listen, on the pension bill? Certainly not the basic concept of pension reform. To the contrary. The Administration not only supports pension reform but has pushed vigorously for it in the last two Congresses -- and with respect to the fiduciary and disclosure provisions -- three Congresses.

We applaud the principles of tightened participation, vesting and funding requirements, although we believe improvements would have been possible in the detailed provisions of the various bills on these subjects. We are strongly behind the Bills' basic provisions liberalizing H.R. 10 contribution limits, and permitting individual retirement accounts; although again we do not think perfection was achieved.

The Senate Bill's extensive provisions on fiduciary standards and disclosure conform quite closely to the Administration's long-standing recommendations. On the whole, with the principal exception of termination insurance, the Senate bill was a constructive and moderate approach to pension reform, and a bill we were reasonably happy with. The Senate bill was generally a good bill, except for a number of technical errors which have been corrected on the House side, and we would be pleased to see something along those general lines enacted.

There are some basic difficulties with the House bill which would tend to reduce the net value of the pension measure. As is known, a jurisdictional dispute had to be resolved between the Ways and Means Committee and the Education and Labor Committee. For several years, the Subcommittee on Labor of the House Education and Labor Committee had been considering the subject of pension reform. The Committee produced a bill, H.R. 2, which attempted to regulate the pension system, not indirectly through standards for tax qualification, administered by the Internal Revenue Service, but through direct statutory requirements on vesting, funding, participation, and termination insurance, all to be administered by the Department of Labor.

This approach, of course, was inherently irreconcilable with the existing structure of indirect pension regulation through minimum requirements for tax qualification. Both the existing law, and the Ways and Means pension bill, contain tax provisions relating to participation, vesting, and funding. The Senate, of course, had a similar jurisdictional problem. There it was resolved by putting the new vesting, funding and participation rules in the Internal Revenue Code, under Treasury Department jurisdiction, while putting the new standards for fiduciary conduct, reporting by plans, and disclosure to participants under Labor Department jurisdiction.

This was essentially the resolution recommended by the Administration. The House Education and Labor Committee was adamant about obtaining for the Labor Department regulatory jurisdiction over the vesting, funding and participation standards which represent the real heart of the bill. In order to get a bill out at all, therefore, an agreement was finally reached between the two House Committees under which both cabinet departments are given jurisdiction over these areas.

The idea is that IRS and Labor will issue joint regulations, and thereafter plans will have to report to, and satisfy, both the IRS and the Labor Department. This is one of the principal features I had in mind when I said that I wish the legislators would give a little more thought to basic economics. The administrative costs necessary to satisfy even one governmental agency will be great enough for small plans; the infliction of overlapping and potentially conflicting supervision of the identical substantive rules by two different bureaucracies may be a good political way to get a bill reported when a deadlock develops, but as a way to handle a substantive problem, it is in my judgment indefensible.

Exclusive Labor Department jurisdiction over vesting, funding, and participation rules is in fact impossible, because current tax law already contains detailed requirements on all these areas. If substantive regulatory rules in the same areas were adopted, as in H.R. 2, under Labor Department

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supervision, that would not change the Internal Revenue Code. As long as our pension system is private, voluntary, and derives its basic incentives for being from the $4 billion a year of tax benefits provided annually to plans complying with the Internal Revenue Code qualification requirements, there is just no way to avoid IRS jurisdiction.

The only options are an uncoordinated joint jurisdiction, as in the original H.R. 2, a coordinated joint jurisdiction, as in the House-passed bill, or a continuation of exclusive IRS jurisdiction over vesting, funding, and participation, as in the Senate bill. Only the latter is a viable alternative.

This may seem like a small point to some of you, but I am confident that the red tape and headaches which dual jurisdiction would create would result, through swollen administrative costs, in the termination of thousands of present plans, and in failure to provide new plans in a much larger number of cases.

A second serious problem with the House bill is its impact on non-qualified plans. It is one thing to impose stringent prerequisites for receipt of special tax benefits, but the House bill imposes the identical substantive requirements for vesting, funding and participation whether the plan seeks to be qualified or not. The only difference is, if you are not qualified, only one bureaucracy will have to make sure you conform, rather than two. The Senate Bill is more direct. It outlaws non-qualified plans directly. Provisions in both

House and Senate bills make exceptions for deferred compensation plans for managerial employees.

Among other things, the Senate bill would prevent the Trustees of the United Mine Workers plan from paying any more pensions to retired mine workers. If the Trustees went ahead and did this anyway, the Senate bill required the Secretary of the Treasury to get an injunction to put a stop to the practice. The principle seems to be that if your employer won't or can't give you a qualified plan, he couldn't give you any pension at all.

It is unclear what a company with an existing non-qualified plan is to do about its contractual obligations to existing retirees now covered by non-qualified plans, not to mention those who have worked for many years in justified expectation of receiving pensions from such plans.

I am not optimistic that it will be possible to preserve the legal right to set up a pension plan or profit-sharing plan which does not qualify under the Code. It certainly vastly increases the sanctions for being disqualified -- and the new bill has a myriad of traps for the unwary whereby this can happen. Not only do you and your employees lose their tax benefits, but the very maintenance of such a plan, at least under the Senate version, will be illegal.

The House bill also has many technical defects, particularly in the highly complex area of the definition of the accrued benefit to which the vesting rules apply. As in the Senate bill, backloading is restricted. This means, for example, that you can't deprive the vesting standards of substantive meaning by setting up a plan which accrues benefits at a nominal rate until say age 64, and then accrues virtually the full pension the last year. Under the bill, accrual in a later year which is at a rate of more than 1-1/3 the rate in an earlier year is precluded.

For example, a unit benefit plan can accrue a benefit of 1-1/2% per year to age 55 and 2% per year thereafter, but not 2-1/2%. Two percent is 1-1/3% times 1-1/2%, but 2-1/2% is more than that, therefore too much. To restrict backloading is quite proper. However, for some reason I do not understand, the House bill also prohibits frontloading.

Except for the same 33-1/3% leeway, you can't accrue benefits more rapidly in the earlier years than the later years. This doesn't make sense at all, for it runs counter to the entire intent of the bill to accelerate the achievement of retirement security. For instance, the House bill prohibits a pension whereby the full pension accrues after, say, 30 years, at least if there are no early retirement provisions. It likewise effectively prohibits a plan with special benefits

for lower-paid workers, for with a rising pay-scale, this would be a front-loaded plan. In some portions of the definition of accrued benefits, moreover, the House bill's draftsmanship is loose; its precise meaning is opaque.

My principal objective here is to give you an idea of how the provisions strike us. In one hour, I couldn't begin a satisfactory exposition of what this massive bill contains. Let's start with participation, that is rules on who has to be included in a qualified plan.

The Senate bill has a one-year maximum participation requirement; with an exception that you may exclude all employees under 30. The House is more restrictive. It has adopted an age 25 and 1 year rule, with a further rule by floor amendment that even someone under 25 must be allowed to participate if he has 3 years of service.

We took no serious exception to the Senate rules. The Administration had itself suggested a 3-year and age-30 requirement. All of these rules are a matter of judgment -- of whether the benefit to younger employees from very early participation is worth the added cost. The age 25 and 1 year requirement, with the any-age 3 year addition strikes us as imposing costs out of proportion to the very small benefits derived, in view of high turnover rates at lower ages.

One problem with participation, is how you define the qualifying year of service. We suggested to the Ways and Means Committee that this basically be done by Regulations, and this suggestion was accepted in the House bill. There are some real problems with this definitional area in the Senate bill, which in essence defines a year as 5 months and a month as 80 hours.

On vesting, the Administration recommended the Rule of 50. Under the Rule of 50, an employee's accrued benefits, or his accounts, would have to be 50% vested whenever his age and years of participation added up to 50. For example, a 43 year old employee with 7 years of participation would have to be at least 50% vested. Thereafter, he would have to reach 100% vesting within 5 more years. We prefer an age-weighted vesting rule such as the Rule of 50 largely because it benefits the older worker who needs it most. And most of us will in time grow old. Those few among us who will not grow old will not need old-age pensions.

The Senate Rule, which the Ways and Means Committee had originally tentatively adopted, is not age-weighted. The basic rule requires 25% vesting by the end of five-years of participation; 50% by the end of 10-years, and 100% by the end of 15 years. This provides faster vesting for younger workers but slower vesting for older workers than would the Rule of 50.

As is the proposed participation rule, this is a minimum standard. There can be faster vesting if the plan so provides.

The alternative rules proposed, including the Senate Rule, tend to waste pension dollars by providing vested sums to young people, who don't need them and won't use them for pension protection. These sums will often have to be paid out as lump sums, for who would want to hold $300 for an ex-employee for 30 or 40 years.

While individually insignificant, these sums in the aggregate will represent a significant leakage of pension dollars out of the pension system, for, again, turnover rates are high at these young ages. The principal reason the amounts will be individually insignificant is that constantly rising wage and salary levels make pensions earned many years before retirement virtually negligible.

For instance, I worked for Sears, Roebuck & Co., back in 1944, starting at 45 cents an hour, or $18.00 per week. Even if a fully-vested pension based on that salary had accrued to be held for me to age 65 it really wouldn't do me much good 20 years from now, when I reach 65. In practice, if the statute required vesting of such an amount, I could have been paid off in cash with a change-dispenser. An age-weighted rule, like the Rule of 50, is a more efficient way to use a given employer dollar to be spent complying with a vesting standard.

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The House bill now allows an age-weighted vesting standard -- a Rule of 45, with the proviso that no vesting is required short of 5 years of service. But it gives the employer a choice. He can also follow the Senate rule. Or he can have 10-year 100% cliff vesting -- in other words, no vesting before 10 years of service, then full vesting. The net effect of all this is to weaken the vesting standards by allowing a plan to choose the least costly, and therefore least effective rule.

The 10-year cliff vesting approach is particularly troublesome. Such provisions are found in many union plans today, and where there is a strong union, the rule would not bother us. But for the small employer -- say an incorporated doctor with a single nurse, it seems to be an open invitation to discriminatory firing, and to be much weaker than present law, which has been construed by IRS to require faster vesting than that for small nonunion plans, to avoid discrimination.

The House has made certain other decisions related to vesting and participation which should be of interest. First, the House approved a Senate provision which generally allows you, if you have negotiated in good faith over pensions, to leave collective-bargaining unit employees out of account in testing under the discrimination and coverage requirements. This will end the bind an employer is in today, if his union people reject pension protection at the collective-bargaining table, perhaps preferring other benefits. He may not be able

to provide pensions for his non-union people if their cross section contains more highly-compensated or supervisory people.

Also, the House bill, but not the Senate bill, provides that an employer would not be required to have a stricter vesting standard than the new minimum to avoid a charge of discrimination, unless there is a pattern of deliberate firing or reason to believe that benefits will be concentrated, through forfeitures, among the highly compensated.

This will tend to end the application of conflicting and sometimes arbitrary requirements on vesting in the different Districts. We are concerned about the 10-year cliff vesting alternative in this connection, and the Regulations may leave the IRS man on the spot considerable latitude to require more rapid vesting in such cases to avoid discrimination, if 10-year cliff vesting for new non-union plans is enacted.

The new vesting provisions are effective at once for new plans. For plans in existence before December 31, 1974, they become effective under the House Bill on a phased-in schedule starting in 1976 and ending in 1981. By 1976, an existing plan will have to meet half the new requirements under the House bill -- that is, if the Senate formula is chosen, for example, 12-1/2% after 5 years instead of 25%, and so on to 50% vesting after 15 years instead of 100%.

The funding rules, in general, will not apply to most insured plans. The rule is that: if the plan is funded exclusively by the purchase of individual insurance contracts; if such contracts call for level annual premiums to be paid not beyond retirement age; if the benefits provided under the plan are equal to the benefits provided under each contract at normal retirement age; if they are guaranteed by a licensed insurance company; if premiums are current, and there are no liens on the policy or policy loans during the year, then the funding standard doesn't apply.

I will not go into detail on what the funding standard is when it does apply. Under current law, you must fund normal costs plus at least interest on unfunded past service liabilities. The Bill requires you not only to pay interest, but also to amortize the principal of the past service liabilities. The maximum period of amortization permitted varies from 30 to 50 years, depending on whether you are talking about the House or Senate bills, single or multi-employer plans, and new or existing plans. In addition, experience losses and gains must be amortized over 15 or 20 years, in both House and Senate versions. Note that only defined benefit plans have the funding requirements -- not money purchase, target benefit, or profit-sharing plans.

There are numerous technical refinements and exceptions in the rules on participation, vesting, and funding, and there are a variety of new technical requirements for qualification of plans in the House bill, and some of them are also in the Senate bill.

For example, "bad-boy" clauses, under which even vested benefits could be lost for serious misconduct, will not be permitted. The plan must protect widows, by providing that annuities are to be joint and survivor annuities, with the surviving spouse getting at least 1/2 the joint benefit, unless the participant affirmatively elects otherwise. Actuarial reductions, of course, are permitted where a joint and survivor annuity is to be received. Corporate mergers or other reorganizations are not to be permitted to reduce any participant's rights.

Moreover, the plan administrator will have to provide the IRS, at least 30 days before the merger, with an actuarial statement of valuation evidencing compliance with this requirement. This is going to be a thorn in the flesh in many mergers where fast action is required. The pension plan will now be required to contain a spendthrift clause, prohibiting assignment or alienation of an employee's interest.

Normal retirement age under the plan will not be allowed to exceed the later of age 65 or completion of 10 years service. Only if a participant otherwise elects, may an annuity for a

retired participant go into pay status later than that time. Plan benefits may no longer be decreased by increases in Social Security payments after retirement. Plan applications, except the schedule of 25 highest paid employees, must now be made open to public inspection. There are numerous new required annual or triennial reports.

There is no true portability in the Senate bill. No provision allows or requires transfer of unvested pension credits between jobs. What is allowed is such transfer, to a central fund, on a voluntary basis, of vested credits. This can be done under current law. As a voluntary system, the portability provisions are relatively harmless and would be very little used. They do, however, set up a new bureaucracy and may become the entering wedge for true portability.

There is a myriad of types of qualified plans -- pension, profit-sharing, stock-bonus; insured and trusteed; fixed benefit, target benefit and money purchase; single and multi-employer; union and non-union; with almost as many combinations of vesting; participation, funding and benefits as there are plans. In this milieu, mandatory portability is unthinkable unless some kind of rigid conformity were imposed upon the system. We do not want to see that day come, for the ability to tailor retirement plans to the particular needs of the particular business is one of the glories of the private retirement system. We oppose the portability provisions. We are pleased that the House

has decided to strike this title and we hope the Conference Committee will follow suit.

We are strongly against the termination insurance scheme in both the House and the Senate bills, under which benefit losses on plan terminations would be made up. This is really business failure insurance. We have studied this subject, we believe as carefully as anyone has, and despite the superficial appeal of termination insurance, every scheme we have seen or been able to devise suffers from incurable defects.

The central issue is whether losses on plan termination will in the last instance rest with the insurance fund or with the employer. If you make the employer liable for such losses, this will help protect the fund from abuse, but it will saddle the employer with a liability he and his creditors never expected or bargained for.

Booking of this liability may trigger default clauses in trust indentures and loan agreements, precipitating employer bankruptcies and the very losses of pension rights we seek to guard against. Banks and other creditors may insist on plan terminations as the price of continued extensions of credit. Such liability will deter small business from establishing new plans for the over 50% of the nation's work force not now covered. And where new plans are established, they will be more likely to be of the money purchase or target benefit type -- not covered by funding requirements or termination insurance, but with less security for the employee.

Both House and Senate bills impose employer liability. In the Senate it is limited to 30% of net worth; in the House to 50%. If you don't have employer liability, there will be overwhelming employer temptation and union demands to underfund and spend the difference on other benefits; to invest speculatively; to grant benefit increases lightly, and generally to produce an unsound pension system for which all will have to pay through ever-rising termination insurance premiums. We don't think termination insurance, as so far presented, is a good answer.

What is the answer to losses of vested benefits on plan terminations? First, better funding and fiduciary standards, vigorously enforced. Second, we should face the fact that the real problem with plan terminations is not that an employee doesn't get a certain level of pension benefits. The uncovered half of our work force fares no better than that on retirement. And among covered employees, those with money-purchase plans know that they will get whatever their fund gives them, no more and no less. The risks of market fluctuations are on them, and they know it, or should. Such employees, and the uncovered half, will get no new funding standard; no termination insurance. The real problem, is that the employee in a defined-benefit plan has been led to expect a fixed level of pension. He may not read, still less comprehend, the fine print, under which pensions are payable only to the extent funded, and under which a par-

ticular order of priorities for payout on termination of an underfunded plan is provided.

The problem is that he may not understand nor appreciate the risk of benefit loss on premature termination which inheres in almost any defined benefit plan. Even if termination insurance were not to be enacted, therefore, we believe that study should be given to mechanisms for ensuring that employees know at all times just where they stand, how sound the funding is, and what the risks are.

The risks of loss of vested pension benefits on termination are in fact usually quite small. In 1972, for example, only 8,450 employees and retirees, or 4/100 of 1% of a covered work force of 23 million, lost vested benefits due to plan terminations. However small the risk, and however much it will be mitigated with better funding and fiduciary rules, and even with termination insurance, we believe serious study should be given to ensuring that the residual risks are realistically explained to, and understood by, the many employees who participate in defined benefit plans.

Despite all this, it is now clear that we're going to get some form of termination insurance. Thus for the first time, the price of setting up a defined-benefit plan is not merely the deposit in trust of the actuarially-computed amounts expected to be necessary to meet the pension promised, but the employer's underwriting, in effect, of the stock market, assuming

personal liability for the pensions expected by his employees.

We hope this will not lead to trouble, but we are apprehensive about what can happen in the event of a serious economic decline, with stock values tumbling and employers in economic difficulties. The added liabilities to the termination insurance fund could prove very troublesome indeed. Termination insurance will not be required, under the House bill, for the type of fully insured plans to which the funding requirements do not apply.

Both Senate and House bills contain extensive requirements setting fiduciary standards and new reporting and disclosure requirements. In general, we prefer the Senate version for it has better thought out and more effective fiduciary standards. Both bills apply, in general, a prudent man standard. One serious defect with the House bill, is that it permits self-dealing with trust funds, unless the consideration is inadequate. This is too much of a license to cheat, since there is no fool-proof way to value such assets as closely-held corporate stocks or real estate.

A failing company will be too strongly tempted to use its plan assets wrongfully as a crutch just when the employees may need them most. Strong fiduciary standards will avert tragedies.

These requirements are primarily within the Labor Department's jurisdiction.

Subtitle B of the Ways and Means portion of the bill covers amendments to the Internal Revenue Code which have no Labor counterpart. For example, the H.R. 10 Plan annual contribution limit has been raised in both Houses to $7,500, or 15% of compensation, if that is less. The present limits, as you know, are 10% or $2,500. The Treasury's philosophy on plans for the self-employed is basically that artificial lines which arbitrarily differentiate permitted contribution or benefit levels according to the form of business organization are undesirable.

To the extent revenue considerations permit, we should move in the direction of ending them. It is for this reason that we recommended an increase to the lesser of 15% of compensation or $7,500 in H.R. 10 Plan contribution limits. This has now been approved both by the Senate and the House and I believe it is certain to be enacted. At the same time, we do not rule out the possibility that greater safeguards against abuse may be more necessary in circumstances where there is an unusually high proportion of proprietary or highly-compensated employees than where there is not. A large work-force, of course, provides its own guarantees against excessively rich plans.

In the light of this basic policy view, we were, generally speaking, unopposed to the provisions of Subtitle B of the Bill as passed by the House. As indicated, we strongly favored the increase to 15%, or $7,500 per year of H.R. 10 contribution

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limits. We do not oppose the maximum $100,000 base on which H.R. 10 contributions may be applied. We would, however have preferred to see cost-of-living escalators on these numbers, so they don't become too restrictive through time and continued inflation.

On the House floor, such an escalator for the $7,500 was narrowly rejected, although the House has agreed to such an escalator on the companion $75,000 a year limit for qualified corporate pensions. As you are aware, the Senate's 75% of salary limit on pensions was dropped by the Ways and Means Committee. We do not expect it to be revived in conference. The changes made in the House will make the Senate contribution limits much less unpalatable than they might otherwise be. With the changes, the Administration has taken no position either way on the $75,000 limit itself for corporate plans. We did not sponsor this limit.

A corresponding limit of $25,000 a year, or 25% of compensation for payments into corporate defined contribution plans has also been adopted, and there are complex provisions for meshing one limit with the other where there are both types of plans. Again, we take no position either way on these limits.

We strongly approve the adoption by both Houses of the Individual Retirement Act, or IRA, allowing anybody who is not a participant in a qualified plan to set aside annually a sum -- as much as the lesser of 20% of earned income or $1,500 per

year -- for his retirement. We would still like to see this priviledge extended to people who are participants in qualified plans, but with inadequate coverage thereunder, so that they could make up the difference through the IRA. One important feature of the IRA which we are particularly pleased with is the rollover, or portability, potential it has.

Under this provision, you can avoid the tax on a lump-sum distribution from a qualified plan, or H.R. 10 Plan, by rolling it over into an IRA account. This will help reduce leakage of tax-benefited funds from the retirement system.

We believe it is unconscionable to tell the uncovered that through their taxes they must help make up the $4 billion of tax revenues lost annually to qualified plans, for other people to retire on, and yet cannot themselves put aside even one tax-deferred dollar for their own retirement. The IRA will remedy this current injustice.

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FINANCIAL INSTITUTIONS ACT OF 1973
SUMMARY

The purpose of this Act is to create a more efficient financial system. This implies, highest possible interest rates to savers, lowest possible interest rates to borrowers, and assurance of sufficient funds to meet credit demands at all times.

Differentials would be eliminated between commercial banks and thrift institutions in four steps over approximately four years, and a truth-in-savings provision added for depositors.

Thrift associations would have access to the check clearing process and authority to engage in credit card operations. Banks would be empowered to offer savings accounts and negotiable orders of withdrawal (N.O.W.) to all customers, individual and corporate. Currently, they are limited to individuals.

Increased income and liquidity would be permitted thrift institutions through portfolio diversification and acquisition of shorter term assets. Restrictions would be liberalized on consumer, realty, and construction loans, community welfare and development investments, and commercial paper and corporate debt securities.

National bank rules on real estate loans would be liberalized, and a leeway authority given for community welfare and development investments.

The dual banking system would be strengthened by authorizing stock thrift institutions at the Federal level. Federal law pertaining to credit unions would be modernized to facilitate operations in different economic periods.

Interest ceilings placed upon Federal Housing insured, and Veterans Administration guaranteed loans would be removed, thus lessening the widespread use of "points" while easing availability of funds from these sources.

A uniform tax formula would be substituted for the subsidy now provided the residential mortgage market through special bad debt reserve deductions for thrift institutions.

The recommendations will have the effect of providing a broader, cheaper range of financial services for consumers, and a market, or near market rate of return for savers. Borrowers will have a greater assurance that credit will be available when needed at reasonable rates, and the Nation's financial institutions will be less dependent on government for their viability.

Transmitted to Congress October 12, 1973, the Act was introduced as H.R. 10990 and referred to both the Banking and Currency and the House Ways & Means Committees.

The House is waiting for Senate action on the measure, introduced as S-2591 October 18, 1973. Hearings, begun November 8, 1973 with testimony by Treasury and the Comptroller of the Currency witnesses, were resumed May 17, before the Senate Banking, Housing and Urban Affairs Subcommittee on the Financial Institutions Act.

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WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR RELEASE UPON DELIVERY

STATEMENT OF THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
OF THE SENATE COMMITTEE ON BANKING, HOUSING,
AND URBAN AFFAIRS
MONDAY, MAY 13, 1974, 9:45 A.M.

Mr. Chairman and Members of the Committee:

It is a pleasure for me to appear this morning to reaffirm the Administration's total commitment to reform of the financial system and to review again our specific proposals for achieving this goal contained in S. 2591.

Last November I testified before this subcommittee and stressed the urgency of acting on these measures which: (1) will create a more efficient financial system, with consumer and mortgage credit more available; (2) will create a financial system that not only serves the borrower but also the consumer-saver; (3) will create a financial system that serves all the needs of the community; (4) will free the financial institutions from their dependence on government support in times of difficulty; and (5) will provide a more stable and constant flow of funds into housing.

First of all, we must realize that our financial institutions continue to operate under a system that is outdated in many respects. Events during the last decade have revealed significant defects in our financial markets in general and our financial institutions in particular. The

credit crunch of 1966, the monetary and gold crises of 1968, the severe squeeze of 1969-1970, as well as the interest rate crunch of 1973, illustrate that our system does not adjust well to short-term changes in economic and financial conditions.

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 and to provide the services their communities need; to collect the savings of these communities; and to make loans to customers in the most efficient, prudent and responsive manner possible.

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Savings and loan associations and mutual savings banks have lost large amounts of savings in the past 2 months because of governmentally imposed ceiling rates on time deposits required by the rigid asset structures of these institutions FHLB advances, at an all time high of $7.0 billion last year, will be exceeded this year. The problem reached the point where the President felt the need to apply emergency measures to prevent the possibility either of housing credit drying up altogether, or of mortgage rates soaring upward out of the reach of all but the wealthiest. The President's program of an additional $3 billion for the GNMA tandem plan, $4 billion in additional FHLB advances, and $3 billion in Treasury forward commitments to the FHLB is designed to aid housing and ease the stresses on savings institutions, but it binds the government even more firmly to supporting the rickety structure of financial intermediaries with what are basically ad hoc solutions to their problems.

The only approach to solving the problem is through a fundamental restructuring of the financial system. Regulation Q ceilings hold down deposit rates but do not protect thrifts from disintermediation. To the contrary, they encourage savings outflows and will do so even more as savers learn where the higher rates can be obtained and as competition for their funds becomes even more fierce. Home Loan Bank advances to member institutions are not solutions at all -

just fingers in the dike. Our encouragement of a market for mortages should be carried out for its own sake - not as a stopgap measure to cure temporary crises.

The present stresses in the financial system, in part the result of uncontained inflation and in part the result of our anti-inflationary efforts, clearly demonstrate that it is now more important than ever for us to act. Although it might be easier to implement these changes during a period of economic and financial calm, we cannot wait for such a period to arrive. We must strengthen the system so that it can withstand the pressures whenever they arise, and we must do so as soon as possible.

Our savings, depositary and capital needs are not the same as they were ten years ago, and ten years from now they will not be the same as they are now. Improved flexibility is the most important reform we can build into the financial system. Our financial institutions _must_ be given the flexibility to evolve -- to meet the demands of the future. These demands will be met, but the question is whether or not they will be met within the framework of our existing financial institutions. Without the flexibility to begin this evolutionary process, our institutions will either respond to change, serve emerging needs, and grow, or they will remain inflexible and shrink.

Many of the witnesses you will hear in the coming week will support certain provisions of the reform and oppose other recommendations. The proposed Financial Institution Act was carefully and painstakingly worked out over almost two years of review and consultation. It represents a balanced, consistent and attainable set of reforms. In order to remain balanced, the various proposals within the package must be considered together. They cannot be approached piecemeal without the risk of promoting even greater imbalance in the system.

Briefly, the Act seeks to improve the efficiency and independence of all institutions within our financial structure through greater reliance on market determination of the cost and availability of credit, safeguarded by existing regulatory agencies. We wish to simplify the structure of financial markets and at the same time to strengthen the private institutions and increase their flexibility and ability to deal both with rapidly changing market conditions and with the evolution of our economy. This is one of the basic thrusts of the entire legislative proposal, which relaxes many of the asset and liability restrictions applying to savings and banking institutions, and which eliminates ultimately self-defeating regulatory measures such as ceiling rates for time deposits and for FHA and VA guaranteed mortgages.

By removing these unnecessary restrictions, we also expect to better serve the public in the areas of housing and housing credit. In particular, the proposed mortgage tax credit, which operates through the free market, and which affects the basic determinants of the demand and supply for housing mortgage credit, will broaden the sources of housing credit without impairing the now specialized institutions which have had to rely on a loss reserve unrelated to their loss experience.

I want to stress that the proposed legislation is a coordinated package, not a collection of independent measures. Its individual components complement and balance each other. For example, the phased abolition of Regulation Q and other ceiling rates for time deposits at commercial banks and thrift institutions is closely related to expanded asset and liability powers, especially for the thrifts. To implement one of these changes without the others would be seriously disruptive.

Currently, differential ceilings are maintained by regulation to the disadvantage of savers in order to shelter thrift institutions, from the competitive strength of commercial banks with their ability to dominate in the attraction of savings funds. Rather than arbitrary ceilings and differentials we want a strengthening of the asset and deposit structures of savings institutions, so that they will be able to compete effectively with the commercial banks without the need for governmental props.

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We also want to assist the small saver. As our savings institutions have changed, his position has changed as well. Less than ten years ago passbook accounts were the usual means of accumulating savings currently, however, they represent less than half of all savings and time deposits. In their place there has been a marked growth of interest sensitive, larger certificate accounts with fixed maturities, and higher yields. The passbook saver has been neglected and even penalized by the ceiling rates set by regulatory agencies. This is especially true for those with accounts of less than $1,000 and yet, for example, these accounts represent more than half the total number of time and savings deposits at commercial banks.

Let me briefly review the proposed legislation:

(1) Expanded Deposit Services Banks will be able to offer negotiable order of withdrawal (N.O.W.) accounts to all depositors, and savings accounts to corporations. Federally chartered thrift institutions will be able to provide demand deposits, N.O.W. accounts and credit cards to all depositors and customers. Federal insurance will be available to state-chartered savings and loan associations without their being required to join the FHLB system.

(2) Expanded Asset Powers Thrifts will be able to loan up to 10% of their total assets to consumers. Commercial banks and thrift institutions will be able to engage in a limited amount of community development lending. Real estate loans by both will be permitted without any special legal restrictions.

Thrifts will be able to acquire high grade corporate and municipal debt obligations and extend construction loans not tied to permanent financing. A wider range of assets will be permitted to be used for Federal Reserve discounts and FHLB advances.

(3) Increasing Competition and Protecting Small Savers: As reduced asset and liability restrictions enable thrift institutions compete more effectively for savings, artificial restraints upon the efficient allocation of credit by financial institutions such as ceilings on rates paid for time deposits will also be eliminated. Full disclosure of interest payment conditions will be required through a Truth-in-Savings Provision. In addition, differential tax treatment of thrift institutions, another symptom of their present comparative weakness, will be eliminated as the sources of that weakness are also eliminated.

(4) Insulating The Housing Sector Two additional measures will further reduce the differential impact of monetary policy upon mortgage credit. First, a tax credit of between one and one-half and three and one-half percent of interest income from residential mortgages will be made available to holders of mortgage assets based on the percentage of their assets in residential mortgages. Thrift institutions will be the chief beneficiaries of this provision, but Commercial Banks will also be encouraged to increase the amount of residential mortgages in their portfolios. Individuals will also recieve a flat 1½% credit. Second, interest rate ceilings on FHA and VA guaranteed

mortgages will be abolished, eliminating a number of aspects of credit rationing and hidden interest charges.

(5) Strengthening Credit Unions Credit unions will be permitted access to a NCUA-administered Central Discount Fund for emergency liquidity purposes. In addition they will be given an option of conversion to a mutual thrift institution form if they desire, which, although not tax exempt, will have the broad range of asset and liability powers established in the other provisions of the Act.

We believe, Mr. Chairman, that enactment of these measures will strengthen the financial system to better withstand the pressures of varying monetary conditions, to efficiently channel resources to their most productive or most socially desired use, and to freely respond to changing private or public priorities. While we do not suggest that this proposed legislation is a final solution to the problems of our financial system we do believe that it is a good beginning. As our institutions and our needs evolve, the competitive environment the Act promotes will enable the financial system to easily adapt to those needs through existing institutions.

I would re-emphasize that today we are faced with economic and monetary conditions that again raise serious questions about the viability of our financial institutions.

Because of ever-increasing Government regulations, many of which had their origin in the 1930's, banks, and particularly savings and loan institutions, have come to rely excessively on the Federal Government to carry them through periods of monetary restraint. Additionally, consumer interests have been severely penalized. Consumer savers have not been allowed a fair return on their savings, and consumer borrowers have suffered through periods of credit unavailability.

Such problems cannot be resolved by piece-meal, interim changes in the financial system. We recognize that the demands for credit will be heavy in the years ahead, and what we need is a permanent system that will provide sufficient freedom in our financial markets to assure that the various institutions competing in those markets have the same powers and the same flexibility. Our recommendations will accomplish this, and what's as important, the result will be increased benefits to housing because all financial institutions will have greater incentives to invest in housing. We are not only concerned with the total number of houses built in a decade but also with the ability to generate a high level of housing starts on a more constant basis, year-in and year-out, and our recommendations are aimed at providing a more constant flow of funds into housing by allowing housing finance to draw from a much larger pool of institutions.

We commend this Committee for its willingness to undertake improvement of our financial institutions. We wish again to stress the urgency of our need for a package of reforms that once and for all will end the crises and resulting patchwork solutions to problems that emerge whenever restrictive monetary measures are employed. The Financial Institutions Act will accomplish this, and we again urge its enactment.

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FOR RELEASE ON DELIVERY

STATEMENT OF THE HONORABLE PAUL A. VOLCKER
THE UNDER SECRETARY OF THE TREASURY
FOR MONETARY AFFAIRS
BEFORE THE COMMITTEE ON WAYS AND MEANS
OF THE HOUSE OF REPRESENTATIVES
ON EXTENSION OF THE DEBT LIMIT
MONDAY, MAY 13, 1974, AT 10:00 A.M.

Mr. Chairman and Members of the Committee:

We have again come to that time of year when it is fitting to present revised Budget estimates, to review the Budget outlook, and to assess that outlook under current economic circumstances. This review would be timely whether or not it were necessary also to discuss action on the statutory debt limit.

The temporary debt limit of $475.7 billion will, however, expire on June 30, 1974, and without Congressional action the debt limit will revert to its permanent ceiling of $400 billion on July 1. Since the debt subject to statutory limit will exceed the permanent limit on that date by approximately $75 billion -- more or less depending on the exact level of the cash balance -- Congressional action will be necessary to

maintain the borrowing authority and the credit of the United States Government.

As a result primarily of final reports on nonwithheld personal income tax receipts in April, the Treasury's cash and debt situation is somewhat improved over our expectations of late last month when these hearings were first scheduled. This improvement, which also reflects some favorable developments on the outlay side, means that the squeeze on the debt limit at the end of May should be less severe than anticipated a few weeks ago.

Nevertheless, if the debt limit is not raised by that time, it appears we will have to retire debt temporarily at the end of this month to avoid exceeding the present limit. A similar situation is expected to develop during the last few days of June, when we could be at or above the temporary debt limit unless we take special measures. This situation is not consistent with orderly financing patterns and practices, and in any event, with the expiration of the temporary debt ceiling on June 30, the need for a new debt limit will be imperative. We propose legislative action adequate to take care of anticipated debt needs through fiscal year 1975.

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Attached to my statement are the usual tables. The first of these shows actual operating balances and debt subject to limit through April 30 and estimated debt subject to limit at the end of May and June of this year, assuming a $6 billion cash balance on the latter dates. Table 2 extends these estimates through fiscal 1975, based on the conventional assumptions of a $6 billion cash balance and a $3 billion margin for contingencies. However, unlike earlier years, we have added a further $3 billion dollar contingency for loans to the Federal Home Loan Bank System, reflecting the housing measures announced by the President on Friday. Among those measures, the Treasury under existing legislation will provide standby lending authority to support commitments of purchases of conventional mortgages by the FHLB System up to $3 billion. Such loans to the FHLB System, if utilized, will increase our own cash needs and borrowing requirements by the same amount.

The revised Budget figures for fiscal years 1974 and 1975, which underly these estimates, are reflected in Table 3. The expenditure figures will be discussed in detail by the Director of the Office of Management and Budget. Changes in revenue estimates are shown in Tables 4 and 5. Apart

from the effects of the action taken by this Committee with respect to taxation of the petroleum industry, the principal changes reflect some shortfall of corporate income tax receipts from earlier estimates, despite the fact that profits themselves appear to be running up to the assumptions that underly the budget projections.

As this Committee is well aware, changes in the public debt are related more directly to the surplus or deficit in the Federal funds than in the unified budget surplus or deficit. The current relationships between these budgetary concepts is shown in Table 3.

In summary, the unified budget is now projected to be in deficit by $3.5 billion in fiscal 1974, a somewhat smaller figure than projected in February. In fiscal 1975, the unified budget is projected at $11.4 billion. In contrast the Federal funds budget, which includes receipts and expenditures handled by the Government as "owner," is now projected to be in deficit by $17-1/2 billion in fiscal 1974 and this deficit will increase to nearly $20 billion in fiscal 1975.

This Federal funds deficit results from the fact that large expenditures are made from the Federal funds into the trust funds, and not to the public. As a result of these intra-governmental payments, the trust funds will have a surplus of $8.5 billion.

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Since we are required to invest this trust fund surplus in Government securities, the result will be to increase the public debt during fiscal year 1975 by more than twice the unified budget deficit.

As you may see by reviewing our projections on Table 2, it will be necessary to provide a temporary limit of $505 billion in fiscal 1975 to meet the contingency requirements.

I should again stress the desirability of a realistic margin for contingencies in the statutory debt limit. An error of only 1 percent in either outlays or receipts amounts to approximately $3 billion, the whole amount of the conventional contingency allowance. I know of no business that could operate effectively if committed to so small a margin for errors in estimates or unforeseen developments.

As you know, the Congress last fall reduced the Administration's debt limit request by $4.3 billion in enacting the $475.7 billion temporary debt ceiling. That reduction, which cut away any contingency allowance, has created a situation in which there have been problems in managing the Treasury's cash position with prudence and full effectiveness. Specifically, we felt obliged to operate with an unduly low cash balance in the first part of April -- dropping to about $2 billion, enough to cover expenditures for only one and a half working days -- in part because of a debt limit

problem we anticipated would develop immediately thereafter. As our projections indicate there is another problem period at the end of May, which, in the absence of legislation, will have to be met through the temporary reduction of debt. In mid June, we have a problem similar to the April problem; again we will feel obliged to operate with an unduly low cash balance over the middle of the month to help avoid a debt limit problem. And, finally, also as our projections show, we will be able to remain under the debt limit at the end of June only by holding our cash balance to a lower figure than would otherwise be desirable in light of the fact that both July and August are large deficit months.

Also, in managing our cash and debt, we are inevitably subject to the uncertainties arising from changes or disturbances in domestic or international markets. Such contingencies seldom eventuate. But in looking many months ahead, we need a reasonable margin for handling unexpected needs -- even though the needs may be temporary and are not related to changes in the basic flows of receipts and expenditures.

I should also mention that the lapse in the Treasury's authority to borrow directly from the Federal Reserve System

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has complicated the Treasury's debt management task. We are hopeful that the problems which have held up passage of the direct borrowing authority legislation will soon be resolved. In the interim, we have attempted to deal with the situation by developing new short-term market borrowing techniques to insure a capacity to raise funds on short notice in the face of unanticipated needs. However, such short-term borrowing could in some circumstances be unnecessarily costly and disturbing to the market, and is not a fully effective substitute for access to the Federal Reserve in emergency situations.

The tight debt ceiling enacted in December 1973, economic conditions, and the Federal Budget revisions since then jointly bring out one of anomalies in the use of the debt limit as an instrument of control over fiscal policy. A slowdown in real economic growth such as that in late 1973 and so far this year can produce a shortfall in Federal revenues. At such times, a very tight debt limit, by impairing our ability to borrow to offset the revenue loss, could complicate the Government's ability to deal with the situation in a constructive fashion. Indeed, the effect

could be quite perverse until the Congress was able to increase the debt limit.

In a time of excessive economic expansion or inflation, on the other hand, when receipts are rising and there is a need for fiscal restraint, the need for borrowing is likely to be reduced, and the debt limit becomes ineffective.

It may be useful at this point for me to comment about the tax cut proposals that are being put forward to stimulate economic activity.

Currently, as you know, we have been going through a very difficult period in which inflation has been very high and production has been falling. In assessing these contrasting developments, which do not fit usual "text book" descriptions of the economy, I would emphasize that the decline in production, has been concentrated primarily in the automobile industry and other sectors directly affected by the energy crisis. This weakness has not spread generally through the economy. Indeed, most basic industries are still operating at practical capacity. Shortages continue to be a major problem, rather than a lack of orders and sales, and these shortages lead to pressures on prices.

Under these circumstances, a tax cut or further general

fiscal stimulus, would be damaging. It could do little to boost physical production and employment over most areas of the economy. But, by adding to demand, it would add to the already virulent inflation. That inflation is quite obviously much too high. Instead of taking further risks of worsening it, our first priority must be to reinforce the reasonable prospect that it should slow down later in the year by limiting monetary growth and maintaining effective fiscal control. A tax cut at this juncture would run directly counter to this goal.

Finally, in what is likely to be my last appearance before you as Under Secretary of the Treasury for Monetary Affairs, I would like to refer to two more technical matters of concern to this Committee.

Immense confusion has been generated in the minds of the public because of the separation of the link between the debt subject to limit and the unified budget surplus or deficit. The anomaly of the debt limit concept employed today is that the unified budget can be balanced or in surplus and we can still need an increase in the debt limit.

For instance, we are now looking at a fiscal year 1974 unified budget which is reasonably close to balance, but the

debt subject to limit in that same fiscal year will have increased by about $14 billion. In fiscal year 1975, the unified budget deficit is now estimated to be in the vicinity of $11-1/2 billion, but the debt subject to limit will increase by about $20 billion.

The budget and debt limit concepts could be brought back together and made easier for the American people to understand, if the debt limit pertained only to those portions of the debt not held by arms of the Federal government itself. Proposals of this sort were made before this Committee -- and rejected -- when the concept of the unified budget was new. I believe it would be useful to review that decision in the light of experience, and in the light of the effort to reform the budgetary procedures in the Congress.

In another area of financial management, the Treasury has for some months been studying whether changes should be made in its tax and loan account system. Under this system, which has been in effect since World War I, certain taxes are paid into Treasury tax and loan accounts in commercial banks. The Treasury then calls the money out of these accounts as it is needed for disbursements, thus avoiding disruptive effects on the money market that Treasury opera-

tions would otherwise cause.

In view of the recent high levels of interest rates, the Treasury had become concerned that the imputed earnings value of these deposits had become considerably greater than the value of the services banks perform for the Government. Our study had revealed that this is so, and we are now in the process of deciding how the value can best be recouped, bearing in mind that it must be done without upsetting the money market or delaying tax collections. It is possible that we will need to propose that we be given a limited authority to invest a portion of our operating balances to improve the efficiency of our cash management, an authority which we now lack. We will be publishing our report shortly, making our conclusions known to the Congress and the public.

In conclusion, I would urge upon the Congress one further point. Great uncertainty and agonizing problems for the Administration and the Congress have been created on more than one occasion in recent years because of difficulties in achieving timely enactment of a new debt limit, in part because of the addition of unrelated and highly controversial provisions to this necessary legislation. I am most strongly

convinced that review of the debt limit and these hearings can be an occasion for orderly review by this Committee of the financing of the Federal Government, and its relationship to economic developments. However, this necessary and desirable process should not be permitted to threaten, as it sometimes has, a financial crisis for our Government as a byproduct of controversy over other measures. I know this Committee has itself operated consistently on this basis in the past, and I look forward to your early action in this instance.

Attachments - 5

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TABLE 1

PUBLIC DEBT SUBJECT TO LIMITATION
FISCAL YEAR 1974
Based on Estimated Budget Outlays of
$269.5 Billion and Receipts of $266.0 Billion
($ Billions)

	Operating Cash Balance	Public Debt Subject to Limitation
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. 30	4.7	465.0
Dec. 31	10.4	470.8
1974		
Jan. 31	10.5	469.1
Feb. 28	7.7	471.6
Mar. 31	8.4	475.4
Apr. 30	11.5	472.9
	ESTIMATED	
May 31	6	475
June 30	6	474

Office of the Fiscal Assistant Secretary May 13, 1974

TABLE 2

PUBLIC DEBT SUBJECT TO LIMITATION
FISCAL YEAR 1975
Based on Estimated Budget Outlays of
$305.4 Billion and Receipts of $294.0 Billion
($ Billions)

	Operating Cash Balance	Public Debt Subject to Limitation	With Usual $3 billion Margin for Contingencies	With Allowance for Contingency of $3 billion Federal Home Loan Bank Borrowing 1/
1974				
June 30	$6	$474	$477	$477
July 31	6	478	481	481
Aug. 31	6	483	486	486
Sept. 30	6	480	483	484
Oct. 31	6	482	485	486
Nov. 30	6	486	489	491
Dec. 31	6	488	491	493
1975				
Jan. 31	6	486	489	492
Feb. 28	6	492	495	498
Mar. 31	6	495	498	501
Apr. 30	6	492	495	498
May 31	6	499	502	505
June 30	6	494	497	500

1/ Announced in Housing Policy Statement by President on May 10, 1974; not included in outlay assumption of $305.4 billion.

Office of the Fiscal Assistant Secretary May 13, 1974

TABLE 3

BUDGET SUMMARY
($ Billions)

	1974	1975
Receipts:		
Federal Funds	$181.8	$201.4
Trust Funds	105.3	116.8
Inter-Fund transactions	21.1	24.2
Total budget receipts	266.0	294.0
Outlays:		
Federal Funds	199.3	221.3
Trust Funds	91.3	108.3
Inter-Fund transactions	21.1	24.2
Total budget outlays	269.5	305.4
Surplus or Deficit (-):		
Federal Funds	-17.5	-19.9
Trust Funds	14.0	8.5
Total budget	- 3.5	-11.4

May 13, 1974

TABLE 4

Comparison of Fiscal Year 1974 Receipts
as Estimated in January and May 1974

($ billions)

	January 1974 budget	Change to May 1974: Economic & reestimate	Legislation	Total	May 1974 estimate
Individual income tax	118.0	--	--	--	118.0
Corporation income tax	43.0	-2.3	-1.0	-3.3	39.7
Employment taxes and contributions .	67.7	-1.2	--	-1.2	66.4
Unemployment insurance	6.2	+0.7	--	+0.7	6.9
Contributions for other insurance and retirement	4.0	--	--	--	4.0
Excise taxes	17.1	+0.1	--	+0.1	17.2
Estate and gift taxes	5.4	-0.3	--	-0.3	5.1
Customs duties	3.5	-0.1	--	-0.1	3.4
Miscellaneous receipts	5.0	+0.3	-0.2	+0.1	5.2
Total budget receipts	270.0	-2.8	-1.2	-4.0	266.0
Underlying Income Assumptions Calendar Year 1973					
Gross national product	1288				1289
Personal income	1035				1035
Corporate profits before tax	126				126

Office of the Secretary of the Treasury
Office of Tax Analysis

May 2, 1974

Note: Figures are rounded and may not necessarily add to totals.

TABLE 5

Comparison of Fiscal Year 1975 Receipts as Estimated in January and May 1974

($ billions)

	January 1974 budget	Change to May 1974 estimate: Economic & reestimate	Legislation	Total	May 1974 estimate
Individual income tax	129.0	+1.5	+0.5	+2.0	131.0
Corporation income tax	48.0	-1.8	-1.7	-3.5	44.5
Employment taxes and contributions .	75.3	-0.2	--	-0.2	75.1
Unemployment insurance	6.0	+0.6	--	+0.6	6.6
Contributions for other insurance and retirement	4.3	+0.1	--	+0.1	4.4
Excise taxes	17.4	-0.1	--	-0.1	17.3
Estate and gift taxes	6.0	-0.4	--	-0.4	5.6
Customs duties	3.8	-0.1	--	-0.1	3.7
Miscellaneous receipts	5.2	+0.4	+0.2	+0.6	5.8
Total budget receipts	295.0	--	-1.0	-1.0	294.0

Underlying Income Assumptions Calendar Year 1974

	January 1974 budget	May 1974 estimate
Gross national product	1390	1401
Personal income	1135	1142
Corporate profits before tax	124	134

Office of the Secretary of the Treasury
Office of Tax Analysis

May 9, 1974

Note: Figures are rounded and may not necessarily add to totals.

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

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May 13, 1974

NOTE TO CORRESPONDENTS:

Minister Willem Duisenberg of the Netherlands and U.S. Secretary of the Treasury William Simon held exploratory discussions today on the future role of gold in international monetary arrangements.

Minister Duisenberg outlined recent discussions among the ministers of finance of the European Community. He reported that the Ministers have agreed on two general propositions. First, they have re-asserted that the SDR should become the principal reserve asset in the future system, and that arrangements for gold in the interim period should not be inconsistent with that goal. Second, they have agreed that such interim arrangements should enable monetary authorities to effectively utilize the monetary gold stocks as instruments of international settlement.

Secretary Simon agreed with Minister Duisenberg that we should seek to settle the future role of gold, including interim steps, by agreement on the widest possible international basis. The Secretary made clear his view that in considering any proposals a primary consideration should be the necessity of insuring that any changes in the international agreements relating to gold would facilitate the continuing orderly diminution of the international monetary role of gold and would contribute to the continuing evolution of economically responsive international monetary arrangements.

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

FOR RELEASE 6:30 P.M. May 13, 1974

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.6 billion of 13-week Treasury bills and for $1.9 billion of 26-week Treasury bills, both series to be issued on May 16, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing August 15, 1974		:	26-week bills maturing November 14, 1974	
	Price	Equivalent annual rate	:	Price	Equivalent annual rate
High	98.000	7.912%	:	95.973	7.965%
Low	97.955	8.090%	:	95.911	8.088%
Average	97.972	8.023% 1/	:	95.940	8.031% 1/

Tenders at the low price for the 13-week bills were allotted 75%.
Tenders at the low price for the 26-week bills were allotted 2%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 49,375,000	$ 39,375,000	:	$ 37,380,000	$ 24,930,000
New York	3,004,130,000	2,049,320,000	:	2,504,140,000	1,412,435,000
Philadelphia	34,350,000	34,100,000	:	45,085,000	20,085,000
Cleveland	51,720,000	51,720,000	:	49,550,000	34,150,000
Richmond	48,580,000	47,070,000	:	27,680,000	25,440,000
Atlanta	44,510,000	38,820,000	:	36,435,000	30,870,000
Chicago	133,830,000	100,830,000	:	129,430,000	50,140,000
St. Louis	62,860,000	43,860,000	:	71,470,000	46,470,000
Minneapolis	27,870,000	27,870,000	:	17,505,000	13,545,000
Kansas City	42,260,000	36,740,000	:	31,555,000	28,735,000
Dallas	34,310,000	27,165,000	:	25,795,000	14,545,000
San Francisco	135,295,000	103,280,000	:	248,340,000	198,840,000
TOTALS	$3,669,090,000	$2,600,150,000 a/		$3,224,365,000	$1,900,185,000 b/

a/ Includes $499,535,000 noncompetitive tenders accepted at the average price.
b/ Includes $346,815,000 noncompetitive tenders accepted at the average price.
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 8.30% for the 13-week bills, and 8.49% for the 26-week bills.

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

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FOR RELEASE AT 9:30 A.M.
TUESDAY, MAY 14, 1974

STATEMENT BY THE HONORABLE EDWARD C. SCHMULTS
GENERAL COUNSEL OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON BUSINESS, COMMERCE, AND TAXATION
OF THE HOUSE COMMITTEE ON THE DISTRICT OF COLUMBIA
ON H.R. 7414
TUESDAY, MAY 14, 1974, AT 9:30 A.M.

Mr. Chairman, I am pleased to be here today to express the Administration's strong support of legislation to establish a District of Columbia Development Bank.

H.R. 7414 incorporates legislation proposed by the Administration in the 92nd Congress. The proposal submitted to the 93rd Congress by the Secretary of the Treasury on September 6, 1973 differs from H.R. 7414 only in that language limiting the Bank's assistance solely to projects located within the District of Columbia has been strengthened.

The purpose of this legislation is to establish a new financial institution -- the D.C. Development Bank -- as a vehicle to mobilize private resources to deal with problems of economic development in the District of Columbia.

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The bill would create a private corporation to be known as the District of Columbia Development Bank. The Bank would have a board of directors consisting of eleven persons: the Commissioner of the District of Columbia, the Chairman of the District of Columbia Council, three officers or employees of the United States or the District government designated by the President, and six directors elected by the shareholders of the Bank. One of the elected members would be selected by the board to serve as its chairman. The board would appoint a president of the Bank to serve as the Bank's chief executive officer.

The Bank would assist economic development projects embracing housing, commerce, and industry by mobilizing the capital and expertise of the private sector, serving as a catalyst and lender of last resort.

The Bank would be authorized to provide technical assistance and training in the preparation and implementation of comprehensive development programs, including formulation of specific project proposals.

The Bank would be authorized to purchase debt obligations and equity instruments, and to guarantee debt obligations. Loans and equity investments would be made in accordance with sound and prudent development banking principles, and would be made with the objective of assuring a reasonable return on the invested funds, consistent with the achievement of economic development goals.

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

The Bank would use its capital and borrowed funds as start-up or seed money for development projects, and the Bank would seek to induce other lenders and investors to provide the bulk of the financing necessary for such projects.

The Bank's function, thus, would be to assume the lead role in putting the project "package" together, through assistance in obtaining any necessary Federal and District approvals, infrastructure grants, or other public investment. Then the Bank would help arrange for private financing and equity, and, if necessary, provide Bank loan funds and equity participation.

The Bank would not be in competition with private bankers, developers, businessmen, government agencies or community groups. Rather, it would be a logical and necessary complement to their efforts in obtaining the necessary approvals and financing for projects of difficult implementation.

The Bank would be expected to obtain its capital entirely from private sources through the sale of common stock and issuance of debt obligations. At least one-half of the amount of common stock subscriptions would be paid into the Bank at the time of subscription with the remainder to be paid within two years after subscription. The Bank would be authorized to borrow up to 15 times the Bank's capital and surplus.

In addition, the Bank would be authorized to issue obligations to the Treasury after the Bank has at least $2 million in paid-in capital. This source would be used only as standby support for the Bank's borrowings in the public market. The Treasury's purchases could not exceed the lesser of twice the amount of the Bank's capital, or $10 million. The interest rate on these issues to the Treasury would be based on the rates paid by the Bank on its other obligations, but not less than the average yield on outstanding Treasury obligations of comparable maturity.

The Bank would be allowed to pay its stockholders dividends in years that it has net earnings and has no outstanding borrowings from the Treasury. The Bank's earnings and dividends and interest on the Bank's obligations would be fully subject to local and Federal taxes.

Frequently in the past proposed solutions for the problems of community economic development were simply proposals to appropriate increasing amounts of Federal funds. Too little thought and attention was given to the availability of private financial resources or to

the capacity of the intended recipients of the proposed Federal financial assistance to match such assistance with community development needs. The proposed D.C. Development Bank would seek to fill the gap between needs and available resources, to catalyze local efforts, and to guide local project sponsors through the steps necessary for successful project completion.

The role of the Federal Government in the Bank would be limited. No appropriations of Federal funds would be authorized. Yet, the Federal charter provided by the enactment of the bill would be indicative of general Federal support, and the modest standby authority for the Bank to borrow from Treasury would help to provide the assurances necessary for the Bank to issue its own obligations in the market. The provision for possible designation of Federal officers or employees to the board of directors of the Bank would provide a formal means for the Bank to maintain direct contact with the Federal Government.

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In conclusion, Mr. Chairman, the D.C. Development Bank is sound and constructive legislation from the standpoint of both the Federal Government and the District of Columbia. This legislation will fill a serious gap in our present delivery system and will further our common efforts to promote the economic development of the District of Columbia.

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Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR IMMEDIATE RELEASE May 14, 1974

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $4,500,000,000, or thereabouts, to be issued May 23, 1974, as follows:

91-day bills (to maturity date) in the amount of $2,600,000,000, or thereabouts, representing an additional amount of bills dated February 21, 1974, and to mature August 22, 1974 (CUSIP No. 912793 UL8), originally issued in the amount of $1,797,450,000 the additional and original bills to be freely interchangeable.

182-day bills for $1,900,000,000, or thereabouts, to be dated May 23, 1974, and to mature November 21, 1974 (CUSIP No. 912793 UZ7).

The bills will be issued for cash and in exchange for Treasury bills maturing May 23, 1974, outstanding in the amount of $4,303,185,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,456,205,000. These accounts may exchange bills they hold for the bills now being offered at the average prices of accepted tenders.

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, May 20, 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 and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions

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with respect to Government securities and borrowings thereon may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on May 23, 1974, in cash or other immediately available funds or in a like face amount of Treasury bills maturing May 23, 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

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FOR IMMEDIATE RELEASE May 16, 1974

SECRETARY SIMON SWEARS IN CROSS AND MACDONALD

Treasury Secretary William E. Simon officiated at swearing-in ceremonies today for Sam Y. Cross of Falls Church, Virginia, who became the United States Director of the International Monetary Fund and David R. Macdonald of Winnetka, Illinois, who became Assistant Secretary of the Treasury for Enforcement, Tariff and Trade Affairs, and Operations.

Mr. Cross, 47, a career Treasury employee, has been Deputy Assistant Secretary of the Treasury for International Monetary and Investment Affairs since February, 1973. Mr. Macdonald, 43, was an attorney with the Chicago-based law firm of Baker and McKenzie, specializing in corporate and international financial law.

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DAVID R. MACDONALD
ASSISTANT SECRETARY OF THE TREASURY FOR
ENFORCEMENT, TARIFF AND TRADE AFFAIRS,
AND OPERATIONS

David R. Macdonald, 43, of Winnetka, Illinois, was sworn in as Assistant Secretary of the Treasury for Enforcement, Tariff and Trade Affairs, and Operations on May 16, 1974. As Assistant Secretary, Mr. Macdonald's responsibilities include direct supervision of:

Office of Tariff and Trade Affairs
Office of Law Enforcement
Interpol National Central Bureau
Office of Operations
Office of Foreign Assets Control

U.S. Secret Service
U.S. Customs Service
Bureau of Alcohol, Tobacco and Firearms
Bureau of the Mint
Bureau of Engraving and Printing
Consolidated Federal Law Enforcement Training Center

Mr. Macdonald is responsible for tariff and trade policy arising from the administration of legislation falling within the jurisdiction of the U.S. Customs Service. As the Secretary's delegate, he has final authority for Treasury's decisions under the Antidumping Act and the countervailing duty law. His responsibilities in this area also include policy advice to the Secretary on the trade implications of Customs' decisions dealing with tariff classification, the coastwise trade laws, and quota restrictions.

As the principal law enforcement policy adviser to the Secretary of the Treasury, Mr. Macdonald's responsibilities include providing policy guidance for all Treasury law enforcement activities.

Mr. Macdonald is also the United States Representative to INTERPOL (International Criminal Police Communications Organization).

Mr. Macdonald was born in Chicago and raised in Winnetka, where he attended New Trier High School. He graduated from Cornell University, Ithaca, New York, with a B.S. degree, in 1952. He received a J.D. from the University of Michigan Law School in Ann Arbor, Michigan, in 1955. He was Assistant Editor of the Michigan Law Review and was elected to the

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Order of the Coif. He served in the U.S. Army from 1955 to 1957. He was a partner in the Chicago-based law firm of Baker and McKenzie for 12 years, specializing in the practice of corporate and international financial law.

In 1964, Mr. Macdonald was named one of Chicago's Ten Outstanding Young Men. He is a member of the American, Illinois and Chicago Bar Associations; the Economic and Legal Clubs of Chicago; the Board of Directors of the Chicago Library of International Relations; and the Committee of Visitors of the University of Michigan Law School. He has been a contributor to various professional journals and a speaker at various legal institutes.

Mr. Macdonald has been a member of the Board of Directors of the Chicago City Bank and Trust Company, Seaboard Life Insurance Company of America, and Scheer Financial Corporation.

He is married to the former Joy Odell of Evanston, Illinois. They have five children.

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May 16, 1974

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

FOR IMMEDIATE RELEASE May 16, 1974

TREASURY ANNOUNCES TENTATIVE NEGATIVE DETERMINATION IN ANTIDUMPING INVESTIGATION ON PAPERMAKING MACHINERY FROM CANADA

Assistant Secretary of the Treasury David R. Macdonald announced today a tentative negative determination in the investigation of papermaking machinery from Canada under the Antidumping Act, 1921, as amended. The merchandise consists of an entire newsprint papermaking machine including constituent components such as the headbox and reels. Notice of this decision will appear in the Federal Register of May 17, 1974.

Comparisons between purchase price and adjusted home market price revealed that purchase price was higher than the home market price of such or similar merchandise.

During the period of 1971 through 1972, sales of papermaking machines from Canada were valued at roughly $6.5 million.

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

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FOR IMMEDIATE RELEASE May 16, 1974

McCRACKEN APPOINTED AS
SENIOR CONSULTANT

Secretary of the Treasury William E. Simon announced today the appointment of Paul W. McCracken, 58, of Ann Arbor, Michigan, as his Senior Consultant, a part-time advisory post involving economic matters. He succeeds Dr. Henry C. Wallich, who resigned to become a Governor of the Federal Reserve System.

As Senior Consultant, Dr. McCracken will conduct meetings of economists from the private sector for in-depth discussions in order to give the Secretary their analyses of current economic issues. He will also be available to the Secretary for consultation.

Dr. McCracken is currently Edmund Ezra Day University Professor of Business Administration at the University of Michigan. He has taught at Michigan since 1948, except for service with the Council of Economic Advisers (CEA) from 1956 to 1959 and again from 1969 to 1971 when he was CEA Chairman. Prior to joining the Michigan faculty, he worked as an economist with the Commerce Department and with the Federal Reserve Bank of Minneapolis.

In 1961 he was a member of the task force reporting to President Kennedy on the domestic economic situation and the balance of payments, and in 1967, was a member of President Johnson's Commission on Budget Concepts.

A graduate of William Penn College, Oskaloosa, Iowa, Dr. McCracken received his M.A. and Ph.D. in economics from Harvard University. He is a member of the American Economic Association, American Finance Association, American Statistical Association and the Royal Economic Society. He has lectured overseas in Japan, India and Europe, and authored numerous articles for professional and popular magazines and newspapers.

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

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FOR IMMEDIATE RELEASE May 16, 1974

ANTIDUMPING INVESTIGATION INITIATED
ON LOCK-IN AMPLIFIERS
FROM THE UNITED KINGDOM

Assistant Secretary of the Treasury David R. Macdonald announced today the initiation of an antidumping investigation on imports of lock-in amplifiers from the United Kingdom. Lock-in amplifiers are electrical instruments used to accurately measure the in-phase or the quadrature component of electronic signals. They have wide application in physics, chemistry, engineering, the biomedical sciences, and in production test facilities. Other applications include quality control and aerospace studies.

Notice of this action will be published in the Federal Register of May 17, 1974.

Mr. Macdonald's announcement followed a summary investigation conducted by the U.S. Customs Service after receipt of a complaint alleging that dumping was occurring in the United States. The information received tends to indicate that the prices of the merchandise sold for exportation to the United States are less than the home market prices.

During calendar year 1973, imports of lock-in amplifiers from the United Kingdom were valued at approximately $150,000.

# # #

UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH April 30, 1974

(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	29,501	20	.07
Series J and K-1952 thru 1957	3,754	3,748	6	.16
UNMATURED				
Series E 3/ :				
1941	1,931	1,751	179	9.27
1942	8,524	7,715	809	9.49
1943	13,710	12,425	1,286	9.38
1944	15,998	14,431	1,567	9.79
1945	12,598	11,228	1,370	10.87
1946	5,753	4,978	775	13.47
1947	5,490	4,623	867	15.79
1948	5,695	4,721	974	17.10
1949	5,656	4,612	1,044	18.46
1950	4,967	3,998	969	19.51
1951	4,296	3,459	838	19.51
1952	4,507	3,603	904	20.06
1953	5,167	4,054	1,112	21.52
1954	5,278	4,082	1,195	22.64
1955	5,495	4,216	1,279	23.28
1956	5,313	4,045	1,268	23.87
1957	5,014	3,773	1,241	24.75
1958	4,907	3,604	1,303	26.55
1959	4,611	3,350	1,261	27.35
1960	4,640	3,284	1,357	29.25
1961	4,738	3,239	1,499	31.64
1962	4,616	3,076	1,540	33.36
1963	5,197	3,282	1,915	36.85
1964	5,065	3,203	1,862	36.76
1965	4,954	3,113	1,841	37.16
1966	5,367	3,231	2,136	39.80
1967	5,284	3,144	2,140	40.50
1968	5,001	2,945	2,056	41.11
1969	4,712	2,672	2,040	43.29
1970	4,940	2,537	2,403	48.64
1971	5,692	2,518	3,174	55.76
1972	6,278	2,334	3,944	62.82
1973	6,195	1,708	4,487	72.43
1974	1,103	46	1,056	95.74
Unclassified	437	419	18	4.12
Total Series E	199,128	145,418	53,710	26.97
Series H (1952 thru May, 1959) 3/	5,484	4,078	1,407	25.66
H (June, 1959 thru 1974)	9,615	3,351	6,263	65.14
Total Series H	15,099	7,429	7,670	50.80
Total Series E and H	214,227	152,847	61,380	28.65
All Series Total matured	38,278	38,248	30	.08
All Series Total unmatured	214,227	152,847	61,380	28.65
All Series Grand Total	252,505	191,095	61,410	24.32

1/ Include accrued discount.
2/ Current redemption value.
3/ At option of owner bonds may be held and will earn interest for additional periods after original maturity dates.

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

NEWS

TELEPHONE 634-5248

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FOR IMMEDIATE RELEASE
MONDAY, MAY 20, 1974, 2:00 P.M.,E.D.T.

NEW YORK STATE AGREES TO AUDIT ITS LOCAL GOVERNMENTS' REVENUE SHARING FUNDS

In an unusual ceremony held at the Treasury Department in Washington, D. C. today, the State of New York agreed formally to audit regularly all general revenue sharing funds paid to the State and local governments of New York. The agreement was signed for the State by Arthur Levitt, New York's Comptroller. Graham W. Watt, Director of the Office of Revenue Sharing, signed on behalf of the U. S. Treasury Department.

The audits will be performed according to procedures suggested by the Office of Revenue Sharing in its publication "Audit Guide and Standards for Revenue Sharing Recipients".

The New York Comptroller agreed to furnish the Compliance Division of the Office of Revenue Sharing with copies of any audit reports that indicate substantial noncompliance with revenue sharing law and regulations including civil rights provisions, or fraud. In addition, the Office of Revenue Sharing

WILL BE NOTIFIED OF ALL AUDIT REPORTS ISSUED THAT DO NOT CONTAIN INSTANCES OF NONCOMPLIANCE OR FRAUD.

THE OFFICE OF REVENUE SHARING WILL RELY ON THE STATE - CONDUCTED AUDITS UNLESS A COMPLAINT AGAINST A PARTICULAR UNIT OF GOVERNMENT BY A CITIZEN OR ORGANIZATION IS FOUND TO WARRANT A TREASURY DEPARTMENT INVESTIGATION. IN ADDITION, THE OFFICE OF REVENUE SHARING'S AUDIT AND COMPLIANCE STAFF MAY MAKE ITS OWN AUDITS, ON A RANDOM BASIS, UPON NOTIFICATION TO THE NEW YORK STATE COMPTROLLER.

LEVITT AND WATT AGREED THAT STATE- CONDUCTED AUDITS OF REVENUE SHARING PAYMENTS TO NEW YORK'S GOVERNMENTS WILL PROVIDE COMPLETE AND MOST ECONOMICAL COVERAGE. NEW YORK'S AUDITORS WILL PERFORM THE REVENUE SHARING REVIEWS AS EXTENSIONS OF THEIR REGULARLY-SCHEDULED AUDITS OF STATE AGENCIES, THE CITY OF NEW YORK, AND ALL OTHER LOCAL GOVERNMENTS WITHIN THE STATE.

"WE HOPE THAT THE AGREEMENT CONCLUDED HERE TODAY WILL REPRESENT THE FIRST OF MANY, SIMILAR ARRANGEMENTS WITH OTHER STATES," WATT SAID IN HIS OPENING REMARKS. "THIS ONE EXAMPLE OF STATE-FEDERAL COOPERATION ALONE WILL SAVE THE TAXPAYERS COUNTLESS THOUSANDS OF DOLLARS IN COSTS THAT WOULD HAVE BEEN REQUIRED IF THE FEDERAL GOVERNMENT HAD TO PERFORM THE WORK INVOLVED. THROUGH THIS ARRANGEMENT, THE JOB WILL BE DONE BETTER, CHEAPER," HE ADDED.

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General revenue sharing is authorized by the State and Local Fiscal Assistance Act, signed into law by President Nixon in October 1972. The law authorizes the Secretary of the Treasury to distribute $30.2 billion to all general-purpose units of government during a five-year period that ends with December 1976. Already, more than $12.7 billion have been distributed to nearly 39,000 states, counties, cities, towns, townships, Indian tribes and Alaskan native villages under the program.

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

NEWS

TELEPHONE 634-5248

GENERAL REVENUE SHARING

FACT SHEET

Introduction

When the State and Local Fiscal Assistance Act was signed into law, on October 20, 1972, both Congress and the Administration agreed that a new and simplified form of federal financial assistance to states and local governments had been needed for some time.

From 1959 to 1973, the annual level of federal financial assistance to local and state governments had increased from $6.7 billion to approximately $48.3 billion, ultimately involving an estimated 1,100 different grant programs which were virtually impossible to catalogue let alone coordinate. It was against this background of confusion and conflict that traditional political opponents joined to support a new concept: the return of funds collected at the federal level, directly and with no strings attached, to states and local governments. This new approach is general revenue sharing.

Through general revenue sharing, a portion of federally-collected income tax revenues is returned to all general-purpose units of government in the United States. Almost 39,000 states, counties, cities, towns, townships, Indian tribes and Alaskan native villages are receiving these "shared revenues" on a regular basis - in four quarterly payments each year.

Basic Requirements

Although no application is made for shared revenues; and despite the fact that the money may be spent with very few federally-enforced restrictions, there are some simple requirements of the State and Local Fiscal Assistance Act of 1972 that must be observed. For example,

- the money must be spent in accordance with laws and procedures that apply to the expenditure of a recipient government's own funds.

- shared revenues may not be used to match other Federal funds.

- the law prohibits the use of the funds in any activity in which there is discrimination because of race, color, national origin or sex.

- if shared revenues are used to pay 25% or more of the cost of a construction project, federal wage rates must be paid (i.e. the Davis-Bacon Act applies).

- a state government may spend its money for any activity that is a legal use of its own funds.

- a local government (i.e. county, city etc.) may use the funds for any capital project (capital, as defined by local law) or for operating and maintenance of programs and projects in the following so-called "priority category" areas: public safety (e.g. police and fire protection, building code inspection etc.)
  public transportation (e.g. highways, grade crossings, snow and ice removal, mass transit etc.)
  recreation (e.g. sports programs, cultural activities etc.)
  environmental protection (e.g. sewage disposal, educational programs on water treatment and soil erosion, etc.)
  financial administration (e.g. expenses for accounting, budgeting, tax collection etc.)
  health (e.g. physical and mental health service programs, etc.)
  libraries (e.g. operation of a bookmobile, purchase of special library materials for the blind and handicapped, etc.)
  social services for the poor or aged (e.g. food, clothing, shelter, day care, job training)

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Some Facts and Figures

The law authorizes the distribution of general revenue sharing funds according to the following schedule:

Entitlement Period	Amount (Billions	When Paid
Jan-Jun '72	$2.652	12/7/72
Jul-Dec '72	2.652	1/5/73
Jan-Jun '73	2.990	4/6/73 and 7/6/73
Jul '73-Jun '74	6.055	Quarterly: Oct '73,Jan, Apr, Jul '74
Jul '74-Jun '75	6.205	Quarterly: Oct '74, Jan, Apr, Jul '75
Jul '75-Jun '76	6.355	Quarterly: Oct '75, Jan, Apr, Jul '76
Jul '76-Dec '76	3.327	Oct '76, Jan '77

Private organizations and agencies or special-purpose governmental units (such as fire districts) may request and receive shared revenues from states and/or local governments if the government's own laws permit such transfers of its own funds.

OFFICE OF REVENUE SHARING
1900 PENNSYLVANIA AVENUE, N.W.
WASHINGTON, D.C. 20226

MEMORANDUM OF AGREEMENT BETWEEN
DIRECTOR, OFFICE OF REVENUE SHARING
DEPARTMENT OF THE TREASURY
AND
STATE COMPTROLLER
STATE OF NEW YORK
With Regard to the Audit of Revenue Sharing Entitlements Paid to the State of New York and the Units of Local Government of the State of New York

Inasmuch as the State Comptroller of the State of New York is charged with the responsibility of making audits of the Departments and other agencies of the State and of the units of local government of the State, it is agreed that the most economical manner in which to conduct the audits of revenue sharing entitlements of these agencies and units is to extend the audit procedures of these audits to include those additional procedures contained in the "Audit Guide and Standards for Revenue Sharing Recipients" issued by the Office of Revenue Sharing. Accordingly, the State Comptroller has issued directives and instructions which provide that such audits be made by his staff.

It is further agreed that the State Comptroller will promptly furnish the Compliance Division, ORS, with copies of all reports that indicate fraud or substantial noncompliance with the restrictions and prohibitions of Title I of the State and Local Fiscal Assistance Act of 1972 and Regulations. The State Comptroller will also notify the Compliance Division, ORS, of audit reports that have been prepared by him which do not cite instances of noncompliance or fraud. This will be in lieu of the requirement contained in the "Audit Guide and Standards for Revenue Sharing Recipients" that the Governor or Chief Executive Officer of units of local government furnish this information to ORS.

The Office of Revenue Sharing will rely on the audits conducted under the State program unless it receives a complaint that warrants investigation or except as provided in the paragraph that follows. In investigating complaints, the Compliance Manager, ORS, will inform the State Comptroller and will utilize such working papers or other documents as the State Comptroller may have relating to the recipient to the maximum extent and conduct such supplemental examination or investigation on a cooperative basis with the staff of the State Comptroller.

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In order to furnish assurance to the State Comptroller that revenue sharing audits are being made and the restrictions and prohibitions of the Act and Regulations are being interpreted on a uniform basis, representatives of the Compliance Division, ORS, periodically will review working papers of selective audits made by the Office of the State Comptroller and may occasionally make an audit of revenue sharing funds of a State agency or unit of local government. Advance notice of such reviews and audits will be given to the State Comptroller and the work will be scheduled in such a manner as not to interrupt his audit program.

SIGNED:	SIGNED:
ARTHUR LEVITT	GRAHAM W. WATT, DIRECTOR
STATE COMPTROLLER STATE OF NEW YORK	OFFICE OF REVENUE SHARING DEPARTMENT OF THE TREASURY
Date ______________	Date ______________

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Biographical Sketch
ARTHUR LEVITT
50TH COMPTROLLER OF THE STATE OF NEW YORK

Arthur Levitt is the 50th Comptroller of the State of New York. He was reelected to a fifth consecutive term on November 3, 1970. His plurality has twice exceeded one million votes; in the 1966 election his plurality was 1.6 million, the greatest ever achieved by any candidate for statewide office in New York.

In December of 1969, he earned the distinction of becoming the Comptroller with the longest tenure of service in the 174-year-old history of the Office.

A native of Brooklyn and now a resident of Manhattan, he earned his A.B. at Columbia University and his LL.B. degree at Columbia Law School. He was awarded honorary doctorate degrees in 1967 by Union University and Siena College, im 1968 by Yeshiva University and in 1970 by St. John's University and Columbia University. In January of 1971 he was awarded an honorary doctorate of civil laws by Pace College and the Jewish Theological Seminary of America.

Until his election as Comptroller in 1954, Mr. Levitt was a practicing Attorney. On January 1, 1952 he was appointed to the New York City Board of Education and later became its President where he served his apprenticeship in the field of fiscal administration, guiding the financial management of one of the world's largest school systems.

As Comptroller, Mr. Levitt is responsible for the management of billions of dollars of State funds. He is charged with the investment of all State moneys, acts as agent for all State borrowing, supervises the fiscal affairs of the State's localities and is trustee of the State Employees' Retirement System and the Police and Firemen's Retirement System, with combined assets of more than $5.6 billion.

Because of his expertise in fiscal management, he has been acclaimed by the public and the press as the "Guardian of the Public Purse."

Comptroller Levitt is a trustee of the Maimonides School for Exceptional Children; trustee and past President of the Union Temple of Brooklyn, member of the New York State and New York City Bar Associations, member and Past Commander of the Corporal Rosenberg Post of the American Legion, a thirty-third Degree Mason,

Grand Lodge Officer and Past Master of Composite Lodge No. 819 F.&A.M. He is a former President of the New York Academy of Public Education. He served with the United States Army during World War II rising to the rank of Colonel and was awarded the Medal of Legion of Merit.

He is a member of the National Democratic Club, the Association of the Bar of the City of New York, the New York State Bar Association and the Public Affairs Committee of the Democratic State Committee.

GRAHAM W. WATT

Director, Office of Revenue Sharing
and
Assistant to the Secretary
Department of the Treasury
Washington, D. C.

As Director of the U. S. Treasury Department's Office of Revenue Sharing, Graham W. Watt is responsible for the distribution of $30.2 billion to more than 38,000 states, counties, cities, towns, townships, Indian tribes and Alaskan native villages during a five year period that ends with the year 1976.

A veteran public administrator and an authority on the management of cities, Mr. Watt came to the Treasury Department in January 1973, after service as Deputy Mayor of the District of Columbia, a position to which he had been appointed by President Nixon in 1969. As Deputy Mayor of Washington, D. C., Mr. Watt also served as a member of the Board of Directors of the Washington Metropolitan Area Transit Authority which is building a rapid rail transit system in three states and six local jurisdictions. He was a Director and Vice-Chairman of the Metropolitan Washington Council of Governments, and a member of the Public Service Commission of the District of Columbia.

Mr. Watt began his career in city administration in Kansas City, Missouri. He became City Manager in Alton, Illinois in 1958. Four years later he moved to a larger city, Portland, Maine, and then to Dayton, Ohio, in 1967.

Mr. Watt has been actively involved in numerous national organizations related to state and local government administration. He was elected to membership in the National Academy of Public Administration in 1969. He received his profession's highest honor when he was elected to be President of the International City Management Association in 1971.

A 1949 graduate of Washington College, Chestertown, Maryland, in economics, Mr. Watt earned his Master's Degree in governmental administration at Fels Institute of Local and State Government, University of Pennsylvania.

Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

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FOR IMMEDIATE RELEASE May 17, 1974

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $4,500,000,000, or thereabouts, to be issued May 30, 1974, as follows:

91-day bills (to maturity date) in the amount of $2,600,000,000, or thereabouts, representing an additional amount of bills dated February 28, 1974, and to mature August 29, 1974 (CUSIP No. 912793 UM6), originally issued in the amount of $1,801,975,000 the additional and original bills to be freely interchangeable.

183-day bills for $1,900,000,000, or thereabouts, to be dated May 30, 1974, and to mature November 29, 1974 (CUSIP No. 912793 VA1).

The bills will be issued for cash and in exchange for Treasury bills maturing May 30, 1974, outstanding in the amount of $4,300,725,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,448,490,000. These accounts may exchange bills they hold for the bills now being offered at the average prices of accepted tenders.

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Friday, May 24, 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 and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions

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with respect to Government securities and borrowings thereon may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on May 30, 1974, in cash or other immediately available funds or in a like face amount of Treasury bills maturing May 30, 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

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FOR IMMEDIATE RELEASE May 17, 1974

AIR RHODESIA LICENSE REVOKED

The Treasury Department announced today that the Office of Foreign Assets Control has revoked the license issued to Mr. Renton Cowley which authorized use of unblocked Rhodesian funds to operate an Air Rhodesia office in New York. Mr. Cowley also represented the Rhodesian National Tourist Board.

The license was issued under the Rhodesian Sanctions Regulations on November 1, 1971 on the basis of Mr. Cowley's written statement that his activities consisted solely of public dissemination in the U. S. of general information about Rhodesia.

The revocation was based on a determination that Mr. Cowley had engaged in activities which were outside the scope of the license. This includes the export of clothing for commercial use in Rhodesia and other unauthorized transactions. He had also represented a private Rhodesian travel agency called United Touring Co., Ltd. without authorization from the Office of Foreign Assets Control.

Mr. Cowley was born in Rhodesia, and he carries a South African passport.

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

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FOR IMMEDIATE RELEASE May 20, 1974

TREASURY ANNOUNCES MODIFICATION OF
DUMPING FINDING ON POTASH FROM CANADA

Assistant Secretary of the Treasury David R. Macdonald announced today a Modification of Dumping Finding on potassium chloride from Canada with respect to five companies. Notice of this action will appear in the Federal Register of Tuesday, May 21, 1974.

For the reasons stated in the "Notice of Tentative Determination to Modify or Revoke Dumping Finding" published on January 9, 1974, potassium chloride, otherwise known as muriate of potash, from Canada is no longer being, nor is it likely to be, sold in the United States at less than fair value by Kalium Chemicals, Limited; Potash Company of Canada, Limited; Potash Company of America; International Minerals and Chemical Corporation; and CF Industries, Inc.

During calendar year 1972, imports of potassium chloride from those five firms were valued at approximately $64.6 million, while total potash imports from Canada were valued at $106.5 million.

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

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FOR IMMEDIATE RELEASE May 20, 1974

JOINT U.S.-U.S.S.R. COMMERCIAL
COMMISSION TO MEET

The Fourth Session of the Joint U.S.-U.S.S.R. Commercial Commission will meet in Washington, D.C., May 21-22 to review recent developments in U.S.-Soviet relations and discuss prospects for long-term commercial and economic cooperation between the United States and the Soviet Union.

Chaired by Secretary of the Treasury William E. Simon, the Joint Commission meeting follows visits by Soviet Foreign Trade Minister Patolichev to the United States in February of this year and those of Secretary of State Kissinger and of Secretary of Commerce Dent to the Soviet Union in March and April, respectively. Acting Minister of Foreign Trade Mikhail R. Kuzmin will lead the Soviet Delegation.

The Joint U.S.-U.S.S.R. Commercial Commission was established at the Moscow Summit Meeting between President Nixon and Soviet leaders in May 1972. Its Fourth Session will exchange views on the future development of American-Soviet trade and economic relations, including the conditions for business activities, the availability of credit, the exchange of economic and financial data, and areas of particular interest for long-term cooperation.

Other U.S. members of the Commission taking part in the talks will be Secretary of Commerce Frederick B. Dent, Under Secretary of the Treasury Jack F. Bennett, Assistant Secretary of State for Economic and Business Affairs (Designate) Thomas O. Enders, Deputy Legal Advisor of the Department of State George H. Aldrich, and Acting Deputy Assistant Secretary of Commerce for East-West Trade Lewis W. Bowden.

Soviet Commission members participating in the Fourth Session will be A. N. Manzhulo, Deputy Minister of Foreign Trade; V. S. Alkhimov, Deputy Minister of Foreign Trade; S. A. Mkrtumov, Commercial Minister and Head of the Soviet Trade Representation in the U.S.; V. N. Sushkov, Director of General Administration, Ministry of Foreign Trade; N. V. Nikitkin, Deputy Chairman of the Board, Vneshtorgbank of the U.S.S.R.; V. B. Spandaryan, Member of the GOSPLAN of the U.S.S.R.; and R. G. Gorbunov, Executive Secretary of the Soviet Section of the Commission.

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

FOR IMMEDIATE RELEASE MAY 20, 1974

JOINT STATEMENT BY
WILLIAM E. SIMON, SECRETARY OF THE TREASURY
AND
MIKE MANSFIELD, SENATE MAJORITY LEADER

An unprecedented joint Executive Congressional leadership group has met during the past three weeks to discuss questions relating to supplies and shortages within the American economy and the probable approach that should be taken to address these questions on a long term basis. Members of the group included:

Executive Branch:

William E. Simon, Secretary of the Treasury
Herbert Stein, Chairman of Council of Economic Advisers
Roy L. Ash, Director, OMB
John T. Dunlop, Director, Cost of Living Council
Peter M. Flanigan, Executive Director, CIEP

House:

Carl Albert, Speaker
Thomas P. O'Neill
John Rhodes
Leslie Arends

Senate:

Mike Mansfield
Hugh Scott
Robert C. Byrd
Robert P. Griffin

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The group has unanimously approved the establishment of a temporary commission consisting of representatives from the Legislative and Executive Branches, as well as from private life. The commission will review these questions and report its recommendations to the President and the Congress by December 31, 1974. As part of this report, the commission will include recommendations with respect to institutional adjustments including the advisability of establishing an independent agency to provide for a continuing and comprehensive examination and analysis of supplies and shortages in the economy of the United States and in relation to the rest of the world.

This joint group represented an unusual effort to bring together leading officials from the Executive and Legislative Branches of the government to address a problem of great national importance on a fully bi-partisan basis. It was initiated by an exchange of letters between the President and the joint leaders of the Senate on March 25, 1974.

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

IMMEDIATE RELEASE

May 20, 1974

MINT APPEALS FOR RETURN OF THE PENNY

I'm calling on every American to get the penny back in circulation and keep it there, Mrs. Mary Brooks, Director of the Mint, said today. I'm calling on the banking industry to welcome the return of pennies during the month of June. I'm urging schools, churches and charities to examine ways and means to involve their members in collecting pennies for deposit.

We can help our great country by this sort of concerted effort to get the penny out of hiding. Here are the reasons:

There is no shortage of a supply of pennies. There is, however, a national inertia concerning their need in the market place. This has an adverse effect upon every public spirited citizen, taxpayer and conservator of the earth's resources. There are plenty of pennies, but they are in the wrong places.

It is estimated that over 30 billion pennies are in circulation -- doing the job for which they were intended. Somewhere in this vast country of ours, however, in excess of 30 billion pennies are in hiding. These are the pennies I'm looking for. They are in dresser drawers, shoe boxes, pickle jars; most anyplace you can think of that will get them out of pocket and out of sight. They are unwanted, unused and unappreciated.

For the Mint to be forced to continue increasing its penny production to meet the current extraordinary demand is wasteful. Wasteful of a natural resource -- copper -- that cannot be replenished by man. And wasteful of the taxpayers' hard earned money.

Seventy-five percent of the Mint's production is devoted to making pennies. That represents 44 percent of our Congressionally appropriated coinage budget allocated to the manufacture of one cent pieces.

The current price and supply of copper allows us to continue production and distribution of the copper bearing cent. During the past 15 years, the Mint has pumped out over 62 billion pennies using some 202,000 tons of copper in their manufacture.

This year alone the Mint expects to use 33,000 tons of copper in cent production -- making about 35 million pennies each working day.

The steep rise in copper prices, the hoarding of pennies for their copper content, and the idea the aluminum penny was fact, undoubtedly has sharply increased the demand for copper pennies. The aluminum penny is probably dead, and the melting of pennies is illegal. Melting is also dangerous and uneconomical. 240,000 pennies weigh 1,646 pounds and represent an investment of $2,400. Before deducting transportation and refining costs, melting would return less than a $100 profit -- or less than a 4% return on $2,400 -- if copper was $1.50 per pound.

On the other hand, $2,400 invested in a savings account or in U. S. Savings Bonds return 5-1/2 to 6 percent interest. Short term certificates of deposit pay even a higher rate of return.

If just 15 billion pennies could be lured out of hiding, the Mint, at current production figures, wouldn't have to make pennies for almost 2 years and it would represent a saving of $150 million.

Fifteen years ago, the reverse design of the Lincoln cent was changed from wheat to a view of the Lincoln memorial. The Mint produced 25.7 billion Lincoln wheat pennies during a 50 year period.

The Lincoln wheat pennies do enjoy collector interest -- some years commanding more numismatic value than others. Rarity is one of the determinants in establishing value of almost any collectible item. Especially this holds true for coins. A general rule of thumb is the lower the mintage of a given coin, the higher the numismatic value. Coin collecting is a very wholesome hobby. I'm happy to have young people looking at their coins.

Sixty-two billion pennies of identical design, however, can never qualify as numismatic rarities and so cannot ever reach great numismatic value. The true collector knows this and collects only those pennies needed to complete his coin collection sets. The true collector likes bright, uncirculated coins also. Not the dull and discolored ones, unless they are rare.

For every $25 worth of pennies cashed in at a bank, the Treasury and the Mint is prepared to award an Exceptional Public Service certificate to the individual or group responsible.

Obviously, this campaign to get the penny back in circulation will require the cooperation of the banks in forwarding the names to be cited for an award to the Bureau of the Mint.

Truly this is a challenging project for anyone who participates. It will give every American family a chance to help control inflation. For without pennies to make change, sales would be rounded off to the next nickel. It will also protect the environment and cut government expenses.

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

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FOR RELEASE 6:30 P.M. May 20, 1974

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.6 billion of 13-week Treasury bills and for $1.9 billion of 26-week Treasury bills, both series to be issued on May 23, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing August 22, 1974		26-week bills maturing November 21, 1974	
	Price	Equivalent annual rate	Price	Equivalent annual rate
High	97.962 a/	8.062%	95.810 b/	8.288%
Low	97.892	8.339%	95.681	8.543%
Average	97.928	8.197% 1/	95.733	8.440% 1/

a/ Excepting 3 tenders totaling $255,000; b/ Excepting 3 tenders totaling $440,000

Tenders at the low price for the 13-week bills were allotted 58%.
Tenders at the low price for the 26-week bills were allotted 83%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 51,680,000	$ 41,680,000	$ 28,200,000	$ 18,200,000
New York	2,740,945,000	1,909,930,000	2,297,180,000	1,502,880,000
Philadelphia	33,185,000	33,185,000	12,095,000	12,095,000
Cleveland	49,660,000	49,660,000	45,205,000	45,205,000
Richmond	45,720,000	45,720,000	20,555,000	20,555,000
Atlanta	30,885,000	30,385,000	23,325,000	22,875,000
Chicago	143,385,000	136,285,000	132,020,000	121,520,000
St. Louis	46,140,000	41,140,000	47,985,000	35,985,000
Minneapolis	13,210,000	13,210,000	4,285,000	4,285,000
Kansas City	41,835,000	41,835,000	21,885,000	21,885,000
Dallas	43,355,000	43,355,000	18,875,000	18,875,000
San Francisco	231,375,000	213,865,000	103,875,000	75,875,000
TOTALS	$3,471,375,000	$2,600,250,000 c/	$2,755,485,000	$1,900,235,000 d/

c/ Includes $ 458,795,000 noncompetitive tenders accepted at the average price.
d/ Includes $ 238,205,000 noncompetitive tenders accepted at the average price.
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 8.49% for the 13-week bills, and 8.94% for the 26-week bills.

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JOINT COMMUNIQUE ON THE FOURTH SESSION OF THE U.S.-U.S.S.R. COMMERCIAL COMMISSION

The " S.-U.S.S.R. Commercial Commission established during the summit meeting in May 1972 today concluded its Fourth Session. The session, which took place in Washington, D.C., on May 21-May 22 was, in accordance with the established procedure, chaired by William E. Simon, U.S. Secretary of the Treasury and Chairman of the U.S. Section of the Commission. The Soviet delegation was led by the Acting Minister of Foreign Trade of the U.S.S.R., Mikhail R. Kuzmin.

Other U.S. members of the Commission taking part in the Fourth Session were Secretary of Commerce Frederick B. Dent, Deputy Chairman; Under Secretary of the Treasury Jack F. Bennett; Assistant Secretary of State for Economic and Business Affairs-Designate Thomas O. Enders; Deputy Legal Adviser of the Department of State George H. Aldrich, Counsel; and Acting Deputy Assistant Secretary of Commerce for East-West Trade Lewis W. Bowden, Executive Secretary. Ambassador William D. Eberle, the President's Special Trade Representative, and Helmut Sonnenfeldt, Counselor of the Department of State, also participated in the talks.

Members of the Soviet Delegation participating in the discussions in addition to Mr. Kuzmin included A. N. Manzhulo, Deputy Minister of Foreign Trade; V. S. Alkhimov, Deputy Minister of Foreign Trade; V. B. Spandaryan, Member of the GOSPLAN; S. A. Mkrtumov, Commercial Minister, Soviet Trade Representation, Washington, D. C.; V. N. Sushkov, Director of General Administration, Ministry of Foreign Trade; N. V. Nikitkin, Deputy Chairman of the Bank for Foreign Trade; N. V. Zinoviev, Chief of the Department for Trade

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with the Countries of America, Ministry of Foreign Trade; G. S. Burguchev, Chief of the Legal and Treaties Department, Ministry of Foreign Trade; and R. G. Gorbunov, Executive Secretary of the Soviet Section of the Commission.

The Joint Commission session included two plenary meetings and several working group meetings, which took place in a friendly and constructive atmosphere. There was a comprehensive exchange of views on the development of American-Soviet trade and economic relations. The Parties noted with satisfaction further progress in the development of these relations since the Third Session of the Commission held in Moscow in October 1973.

The Commission agreed on the desirability of expanding and further developing long-term economic, industrial and technical cooperation and discussed means of facilitating such cooperation, including the creation of favorable conditions for business activities, and the exchange of economic and financial data. With these objectives in mind, the Commission recommended to the two Governments the conclusion of a long-term agreement to facilitate economic, industrial and technical cooperation.

It was noted that in 1973, US-USSR trade amounted to almost $1.5 billion. The Commission anticipated that bilateral trade would again this year exceed the 1 billion dollar level. This trade volume, if favorable conditions obtained, would permit the countries to surpass the total of 2-3 billion dollars for the three years 1973-75 foreseen by President Nixon and General Secretary Brezhnev in June of last year.

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The Commission received reports and exchanged views on the current status of a number of long-term cooperation projects under negotiation between U.S. firms and Soviet foreign trade organizations, including projects in the fields of fertilizer production, exploration for natural gas and oil, timber products, machine building facilities and products of power-consuming industries. In many cases these projects would be carried out on a self-liquidating basis.

The U.S. Section reported that in accordance with its commitment made at the last session of the Joint Commission, the Department of Commerce had referred the Soviet interest in power-consuming production facilities, including aluminum, ferro-manganese and ferro-chromium, and chemicals, to appropriate industry trade associations and directly to potentially interested U.S. companies. The Soviet Section provided the U.S. Delegation additional data on several of the projects for transmittal to U.S. firms.

To facilitate trade and cooperation in the field of civil aviation, the two Parties agreed upon the desirability of concluding a Bilateral Airworthiness Agreement.

To aid in the growth of two-way trade, agreement was reached with regard to the appropriate expansion of commercial representation at the present time, and on the need to facilitate suitable office, housing, and working conditions.

The Commission noted that the recent commitment by the U.S. Export-Import Bank to furnish credit for the exporting of U.S. equipment, materials and services for the construction in Moscow of the International Center for Commerce will add to the facilities available to meet the

growing need of U.S. and other foreign companies and banks to open offices in Moscow. At present, seventeen (17) U.S. companies and banks have already been authorized to open offices in Moscow.

Both sides agreed to facilitate trade missions and to support participation of their nationals, companies and economic organizations in trade fairs and exhibitions organized in the other country.

The U.S. Section reaffirmed the U.S. Administration's determination to obtain legislation that would provide authority for non-discriminatory tariff treatment for the U.S.S.R., as called for under the U.S.-U.S.S.R. Trade Agreement of 1972, and would continue the availability of U.S. Export-Import Bank financing on a non-discriminatory basis when needed to assist U.S. exporters on their sales to the U.S.S.R.

At the final plenary session, the Commission heard a report on the progress of the U.S.-U.S.S.R. Trade and Economic Council from the two Co-Chairmen: Donald M. Kendall and V. S. Alkhimov. The Council, whose principal task is the promotion of trade and economic cooperation between the U.S. and the U.S.S.R., was established pursuant to the U.S.-U.S.S.R. protocol signed at the Washington summit meeting in June of 1973.

The Commission expressed satisfaction with the results of the Fourth Session, considering the discussions a further major step in the constructive development of solid, long-term, mutually advantageous trade relations. It agreed to convene the next (Fifth) session in Moscow in 1975.

The Soviet delegation members expressed their appreciation for the hospitality extended to them by their American hosts during the delegation's stay in the U.S.

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

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FOR IMMEDIATE RELEASE May 22, 1974

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 to be dated June 4, 1974, and to mature June 3, 1975 (CUSIP No. 912793 VL7).

The bills will be issued for cash and in exchange for Treasury bills maturing June 4, 1974, outstanding in the amount of $1,800,840,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $1,024,495,000. These accounts may exchange bills they hold for the bills now being offered at the average price of accepted tenders.

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Wednesday, May 29, 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 and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions

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with respect to Government securities and borrowings thereon may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on June 4, 1974, in cash or other immediately available funds or in a like face amount of Treasury bills maturing June 4, 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.

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

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IMMEDIATE RELEASE FINAL COPY May 21, 1974

MINT APPEALS FOR RETURN OF THE PENNY

I'm calling on every American to get the penny back in circulation and keep it there, Mrs. Mary Brooks, Director of the Mint, said today. I'm calling on the banking industry to welcome the return of pennies during the month of June. I'm urging schools, churches and charities to examine ways and means to involve their members in collecting pennies for deposit.

The price of copper has retreated, closing at $1.15 per pound on May 20. There will be no aluminum penny. The 62 billion pennies produced during the past 15 years have no numismatic value and because of the huge mintage they will never attain great value.

Nevertheless, speculators and hoarders of pennies have caused what seems to be a shortage of pennies in certain areas of the country.

But there is no shortage of a supply of pennies.

Creating a shortage where it does not exist can adversely affect every public spirited citizen, taxpayer and conservator of the earth's resources. It is inflationary should merchants start to round off sales to the next nickel due to lack of pennies to make change.

Again, I'd like to emphasize. There are plenty of pennies. But they are in the wrong places.

It is estimated that over 30 billion pennies are in circulation -- doing the job for which they were intended. Somewhere in this vast country of ours, however, in excess of 30 billion pennies are in hiding. These are the pennies I'm looking for. They are in dresser drawers, shoe boxes, pickle jars; most anyplace you can think of that will get them out of pocket and out of sight. They are unwanted, unused and unappreciated.

For the Mint to be forced to continue increasing its penny production to meet the current extraordinary demand is wasteful. Wasteful of a natural resource -- copper -- that cannot be replenished by man. And wasteful of the taxpayers' hard earned money. One billion pennies returned to circulation will save the taxpayers $10,000,000.

The current price and supply of copper allows us to continue production and distribution of the copper bearing cent. During the past 15 years, the Mint has pumped out over 62 billion pennies using some 202,000 tons of copper in their manufacture.

This year alone the Mint expects to use 33,000 tons of copper in cent production -- making about 35 million pennies each working day.

If just 15 billion pennies could be lured out of hiding, the Mint, at current production figures, wouldn't have to make pennies for almost 2 years and it would represent a saving of $150 million.

Fifteen years ago, the reverse design of the Lincoln cent was changed from wheat to a view of the Lincoln memorial. The Mint produced 25.7 billion Lincoln wheat pennies during a 50 year period.

The Lincoln wheat pennies do enjoy collector interest -- some years commanding more numismatic value than others. Rarity is one of the determinants in establishing value of almost any collectible item. Especially this holds true for coins. A general rule of thumb is the lower the mintage of a given coin, the higher the numismatic value. Coin collecting is a very wholesome hobby. I'm happy to have young people looking at their coins.

Sixty-two billion pennies of identical design, however, can never qualify as numismatic rarities and so cannot ever reach great numismatic value. The true collector knows this and collects only those pennies needed to complete his coin collection sets. The true collector likes bright, uncirculated coins also. Not the dull and discolored ones, unless they are rare.

For every $25 worth of pennies cashed in at a bank, the Treasury and the Mint are prepared to issue a Treasury Department certificate to the individual or group responsible.

Obviously, this campaign to get the penny back in circulation will require the cooperation of the banks in forwarding the names to be cited for an award to Mary Brooks, Director of the Mint, 55 Mint St., San Francisco, Calif., 94175.

Truly this is a challenging project for anyone who participates. It will give every American family a chance to help control inflation, protect the environment and cut government expenses.

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

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FOR IMMEDIATE RELEASE May 22, 1974

TREASURY ANNOUNCES AUCTION OF STRIP OF BILLS

The Treasury announced today that it will raise $800 million by auctioning a "strip" of Treasury bills consisting of additions to eight outstanding weekly series of bills. Additions of $100 million will be made to bills maturing each week from September 19 through November 7, 1974.

The auction will be on Thursday, May 30, with payment on Wednesday, June 5. Payment for the bills may not be made by credit to Treasury tax and loan accounts.

The "strip" of bills now being offered is expected to meet the Treasury's cash needs prior to the period of heavy June tax payments.

Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

FOR IMMEDIATE RELEASE May 22, 1974

TREASURY OFFERS $800 MILLION STRIP OF BILLS

The Treasury Department, by this public notice, invites tenders for additional amounts of 8 series of Treasury bills to the aggregate amount of $800,000,000, or thereabouts, for cash. The additional bills will be issued June 5, 1974, 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 1974	Maturity Dates 1974	CUSIP Nos.	Days from June 5, 1974 to Maturity	Amount Currently Outstanding (in millions)
$100,000,000	March 21	September 19	912793 UQ7	106	$1,801
100,000,000	March 28	September 26	912793 UR5	113	1,801
100,000,000	April 4	October 3	912793 US3	120	1,810
100,000,000	April 11	October 10	912793 UT1	127	1,802
100,000,000	April 18	October 17	912793 UU8	134	1,804
100,000,000	April 25	October 24	912793 UV6	141	1,801
100,000,000	May 2	October 31	912793 UW4	148	1,802
100,000,000	May 9	November 7	912793 UX2	155	1,801
$800,000,000			Average	130.5	

The additional and original bills will be freely interchangeable.

Each tender submitted must be in the minimum amount of $80,000. Tenders over $80,000 must be in multiples of $40,000. One-eighth 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 Daylight Saving time, Thursday, May 30, 1974. 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.

Banking institutions and dealers who make primary markets in Government

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securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $160,000 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 June 5, 1974.

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 8 outstanding issues using as a basis for proration the closing market prices for each of the issues on June 5, 1974. (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
WASHINGTON, D.C. 20220 TELEPHONE WO4-2041
NEWS

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FOR RELEASE ON DELIVERY

REMARKS OF DR. H. I. LIEBLING
DEPUTY DIRECTOR, OFFICE OF FINANCIAL ANALYSIS
OFFICE OF THE SECRETARY, DEPARTMENT OF THE TREASURY
AT FLORIDA ATLANTIC UNIVERSITY
BOCA RATON, FLORIDA
THURSDAY, MAY 23, 1974, 7:30 P.M.

DO WE NEED A TAX CUT?

Like beauty, the look of economic statistics often depends on the eyes of the beholder. Whether it be the change in GNP, unemployment, the rate of inflation, or other economic figures, the public can be assured of at least two interpretations: that the economic situation may be deteriorating; or, on the other hand, that matters are improving. Of course, there are also the "hedgers", the "who-can-tell'ers", and others who make economic pronouncements. Much of the difference in attitude results from different criteria of what is an "improvement" or a "deterioration". Sometimes the very same statistic will elicit both reactions -- depending upon age, sex, economic status, or political view.

But, I will not go so far as to say that economics is more a political game than a science. It may not yet be a science, but it is hard enough discipline to rule out the claim that it is only a political game. That must be so because frequently both pessimistic and optimistic views sometimes are shared by people in the same part of the political spectrum. And, then, there are those, like myself, who are career civil servants or professionals in the private

sector who sell their services; and whose success depends upon being right at least some of the time. So, at least, we can rule out politics as the sole cause of differing views on the economic outlook. That is not to say that politics can be ruled out as having been irrelevant in arriving at many economic decisions in recent years.

The economy also is viewed differently by one group or another because it might depend on whether the inflation rate or the unemployment rate is getting lower. We tend to applaud a reduction in unemployment -- that is always cheerful news. But, when inflation accelerates as a result, that is another matter. Somehow, the connection between the two is not made, but that does happen to be one of the dilemmas of an advanced industrial society.

A third factor which might influence attitudes is also related to prices, but in a different way than concern over general inflation. As you know, the average farmer is not an outstandingly wealthy individual; and when his income rises, that is generally accepted as a favorable development. However, to the extent that the increased income of farmers means higher food prices, consumers might not look favorably upon that consequence. To generalize the relation of prices to incomes, higher prices, ordinarily, mean higher income to somebody -- and this is something we applaud. But, as consumers, we frown when we have to pay those higher prices -- though the higher income which we applauded results from the higher prices that we frowned upon. So, for the nation, it is all one ball of wax, so to speak, though we may not always see it that way.

But, these are not ordinary times due to the fuel situation, it is argued. Admittedly, a higher price usually means a higher income to somebody in the U.S., and therefore, purchasing power in the U.S. is not reduced. But, when the higher prices of oil and gas mean higher income to the oil companies who might spend only part of it; or higher incomes to somebody outside of the U.S., then purchasing power in the U.S. is reduced. The advocates of a tax cut have estimated the reduction in purchasing power in the U.S. due to oil at $12 to $15 billion for the people as a

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whole. In effect, the higher oil and gas prices are similar to a tax increase, which would reduce spending. That reduction is said to be the root cause of the low real GNP growth -- indeed, the negative growth -- that the economy has been experiencing recently. That is why a tax cut has been recommended by some in order to restore the real purchasing power of the people.

That proposition assumes that we can predict what consumer spending behavior might be in reaction to the higher prices of oil and gas. Now, if there is one matter upon which economists should agree, it is to reject the mechanistic assumption that in the short run consumers always cut back spending in reaction to temporary changes in real income. They should remember that in mid-1968, most forecasters said, incorrectly, as it turned out, that the income tax surcharge would depress consumer spending and result in recession. Another assumption that might not hold up is that consumers cut back on spending when prices rise. Surely the European experience of high inflation and high spending over the last decade or so would not support that view.

Furthermore, what is involved in the higher oil prices, up to this point, is merely a transfer of financial assets from the oil consuming nations to the oil producing nations. As a nation, oil consumers are paying for higher priced oil with debt -- in other words, dissaving.

The preceding might appear as a quite lighthearted approach to complex problems. So, we come to the point of deciding what is the real problem confronting the U.S.: is it inflation or the threat of recession? Or worse than that: do we have the worst of the two possible worlds -- the "stagflation" to which many have referred. Is that the shape of the present and the future?

Those issues might be better understood by an analysis of where the real economy has been recently; where it stands currently; and, where it might be going this year and next. And, I should like to do that against the perspective of the proposal for a tax cut, which is now a very active issue

being debated in the Congress. If, indeed, the economy has been or will be characterized by insufficiency of demand, low growth and rising unemployment, then a tax cut might well be entertained -- even though that might risk more inflation. On the other hand, if insufficiency of total demand represents a misreading of the circumstances that the economy presently finds itself in, a tax cut could add only to the inflation.

I start off with the proposition that there has been insufficient recognition of how close to capacity this economy has been operating since late 1972, and, therefore, insufficient recognition by policy makers and the public generally, of the potential strength of the inflationary forces.

Now, our present inflation does have some special features which policy makers could not influence very well. These special features are: first, the worldwide economic boom which has generated a very large demand for internationally traded industrial materials; second, the succession of crop failures and other natural disasters affecting farm and food supply; and, third, the devaluation of the dollar, which made the U.S. a very attractive source of supply in world markets. On top of those troubles came the oil embargo of last October. All of these added much to inflation -- but policy makers could do little about them. These extra dimensions led to an acceleration of the inflation to an annual rate of 11% to 12% in the first quarter of this year.

But, the inflation rate would have been higher than what this nation would have liked to experience even without those special features. Using consumer prices as the measure, the annual rate of inflation over the past year ending April was 10.2%.

But, if food and the energy related items -- fuel oil, gasoline and electricity -- are eliminated from the computation of the consumer price index, the underlying rate of inflation still would have run at an annual rate of 6.6%. Another way of stating it is that more than half of the inflation rate was attributable to the nonfood, nonenergy elements of goods and services.

A 6.6% rate might look good, compared with about twice that now being registered, but it is higher than has been customary in the U.S. Accordingly, current inflation rates reflect more than the international commodity inflation -- indeed, it might be said that it reflects the strain on the capacity to produce on a worldwide basis.

In the U.S. policy makers did not recognize fully that by the end of 1972 and early 1973, the economy was very close to full capacity operations.

The reason for this was that too much reliance was placed on two aggregate measures that economists use: (1) the actual as percent of potential GNP, and (2) the overall unemployment rate. Both of these measures in late 1972 and early 1973 indicated that there was considerable room to grow. In fact, various other measures -- the backlog of orders, the increasing number of months needed for delivery of materials, the low unemployment rate for experienced workers, etc. -- suggested that the capacity to produce was under strain. As a result, stimulative fiscal and monetary policy was overstayed.

By mid-1973, however, most economists recognized that the economy was overheated, and hopes were high by the policy makers that a "soft landing" of the economy could be managed by 1974. Following the 6% real GNP growth of 1973 -- which was about 2% above sustainable long-term growth -- a 3% to 4% real growth rate in 1974 was considered desirable to cool off the inflation without much change in unemployment rates.

The oil embargo changed all that. On top of the other shortages, the deficiency in oil imports could only mean a reduction in supplies of gas at refineries and gas stations and that production and spending on related items -- large cars, recreation, etc., would be affected. By the time of publication of the Economic Report of the President in February, the official forecast included the following forecasts for 1974.

- An 8% increase in so-called nominal GNP, compared with 11½% in 1973.

- A 1% increase in real GNP, compared with 6% in 1973.
- A 7% increase in the rate of inflation, compared with 5½% in 1973.

Just recently, these forecasts have been revised and they now show somewhat more inflation and less real growth in 1974 as a whole. But the pattern of developments within the year remains about the same -- a decline in real GNP in the early months of the year and a recovery in the second half.

Now, when economists talk of negative real growth, the spectre of "recession" stalks across the stage. In common usage, two quarters of negative real GNP growth has been a shorthand way of declaring a recession. But, I should like to paraphrase Gertrude Stein and to disagree that a number is a number is a number. Low growth, or even negative growth, which results from supply constraints in the economy represents a different condition -- and requires different economic policies -- than when it results from demand insufficiency. These supply constraints have developed on a scale unprecedented in the postwar period. Supplies generally are short across the board almost in all basic materials, and, in many types of finished goods. Manufacturers' unfilled orders for durable goods continue to rise and in April of this year were 30% above a year ago. Purchasing agents continue to report slower deliveries, etc. Experienced people are difficult to find; the unemployment rate of married men or full-time workers is virtually at the same low in April 1974 as a year earlier.

But how do these figures reconcile with the 6.3% decline in real GNP just reported for the first quarter of the year? The fact is that there have been slippages in some sectors of the economy. But, so far, because they are mainly oil or energy-related, these have been far outweighed by ongoing positive growth in the main body of the economy. If the real GNP figures for the first quarter are disentangled, they show the following:

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- Taking account only of the most obvious supply or energy-related constraints in the economy -- the automobile sector and spending on gas and oil -- real GNP growth in the first quarter was a positive 1%, not a negative 6.3%, annual rate.

- Instead of "reeling under the blows of tight money" and runaway prices (as a nationally known economist recently has characterized the consumer in justification of a tax cut), spending has been growing, though modestly. Here again, if energy-related spending on cars and on gas and oil are netted out, real consumer spending in the first quarter of this year did _not_ decline; it _rose_ at an annual rate of 3.5%.

- Sluggish real spending by business on fixed investment in the first quarter also has been noted in support of a tax cut. But, here too, an annual rate of _decline_ of 3% is converted into an _increase_ of 7%, if the affected purchases on autos and trucks are netted out. (In terms of current dollars, the spending advances were 7% and 16%, respectively.)

- The same nationally known economist cited a decline in capacity utilization rates in the materials producing industry in the first quarter. But steel and petroleum refining are both part of this statistic and they have been troubled by inadequate raw materials supply. An adjustment for these two industries would show no change in the very high operating rate for basic materials in the first quarter of 1974.

Looking beyond the first quarter, the early returns already are indicating a bottoming out from negative to at least zero real growth. There is even a strong chance of a small increase in real GNP in the second quarter. After that, sizeable positive growth in the second half of the year is our best forecast.

That scenario appears in progress. In April, industrial production rose 0.4%; employment scored a sizeable gain; retail sales advanced 1½%, etc. Housing starts also rose, but its longer run outlook has begun to be clouded by rising short-term interest rates.

To sum up, a strong economic recovery appears on the way. Its sources of power will be the same as those which have continued to sustain the underlying vigor of the economy throughout the energy situation. They are the following:

- The U.S. is in the midst of a capital goods boom, whose end is not in sight. It will take several years before the deficiencies in our capacity to produce can be met in the energy and basic materials and even finished goods sectors. On top of that, capital expenditures will be required to meet the new environmental standards.

- Inventories are low in many industries and added production will be needed to bring them into better balance.

- Export markets will continue to grow.

- Housing activity will expand, though not as much as had been forecast earlier.

Against this perspective of relatively full utilization of resources and abounding shortages, a tax cut cannot but contribute to accelerating an already high rate of inflation. There is some slack here and there in the economy, as in the automobile industry and in housing. But, it is not clear that any additional income to consumers from a tax cut would be spent in these areas; spending in most other areas would only add to price pressures.

This is a critical juncture in economic policy. If the economy's aggregate demand is so strong, the fiscal objective of the Federal Government should be to minimize budget deficits. The recently announced smaller deficit expected for fiscal 1974 at $3.5 billion conforms with

this objective. The larger 1975 deficit at $11.4 billion would suggest the need for another revision of outlays. Careful though that process already has been, perhaps more prudence in spending might be attained here and there. Monetary policy, of course, should work in harness towards the goal of disinflation.

The country is confronted with a difficult problem: the high magnitude of the "basic" rate of inflation. This rate might be measured by taking out the special inflating influences of food and energy. Aside from these elements, the "basic" rate of consumer prices alone over the past year was 6½%. I am not projecting that rate for the rest of 1974 as inevitable. It might not even be my best estimate. Possibly it could go lower. Good harvests and the end of the oil embargo should mean leveling off in food prices, according to recent Department of Agriculture estimates, while oil and gas prices might stabilize. But, assuming a humble and prudent position, justified by the uncertainties of the course of food and energy prices, the simplest type of forecasting might consist of projecting the 6½% rate of the recent past, aside from food and energy. That would not take into account many recent increases in the cost of materials and semi-finished products, which have not yet worked their way into the consumer price system. If that occurred, obviously the inflation rate might be higher.

Against that background, it is clear that the risks of a tax cut are large. Its most probable effect would be in the direction of adding to inflationary pressures directly and indirectly by the encouragement that this might materially give to wage and price decisions in the private sector. That could only mean that the irrationality of inflation where few gain and most lose would be given more basis to grow.

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

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FOR RELEASE 6:30 P.M.

May 24, 1974

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $ 2.6 billion of 13-week Treasury bills and for $1.9 billion of 26-week Treasury bills, both series to be issued on May 30, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing August 29, 1974		26-week bills maturing November 29, 1974	
	Price	Equivalent annual rate	Price	Equivalent annual rate
High	98.041 a/	7.750%	95.888 b/	8.089%
Low	97.957	8.082%	95.804	8.254%
Average	97.982	7.983% 1/	95.829	8.205% 1/

a/ Excepting 1 tender of $5,000,000
b/ Excepting 5 tenders totaling $2,450,000

Tenders at the low price for the 13-week bills were allotted 51%.
Tenders at the low price for the 26-week bills were allotted 70%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 42,195,000	$ 32,195,000	$ 25,155,000	$ 13,155,000
New York	3,108,015,000	2,137,765,000	2,966,800,000	1,621,790,000
Philadelphia	22,930,000	22,905,000	10,940,000	10,890,000
Cleveland	52,370,000	38,025,000	47,515,000	26,520,000
Richmond	32,300,000	22,350,000	19,370,000	14,445,000
Atlanta	28,855,000	28,555,000	23,455,000	23,055,000
Chicago	189,020,000	156,530,000	161,275,000	66,475,000
St. Louis	42,790,000	26,790,000	41,800,000	19,800,000
Minneapolis	15,555,000	15,555,000	12,200,000	12,200,000
Kansas City	30,400,000	30,400,000	33,870,000	33,870,000
Dallas	16,605,000	16,605,000	13,525,000	10,565,000
San Francisco	137,520,000	72,510,000	115,170,000	47,360,000
TOTALS	$3,718,555,000	$2,600,185,000 c/	$3,471,075,000	$1,900,125,000 d/

c/ Includes $ 364,095,000 noncompetitive tenders accepted at the average price.
d/ Includes $221,620,000 noncompetitive tenders accepted at the average price.
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 8.26 % for the 13-week bills, and 8.68% for the 26-week bills.

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FOR IMMEDIATE RELEASE MAY 28,1974

TREASURY SECRETARY SIMON NAMES ANTHONY E. WALLACE
SAVINGS BONDS CHAIRMAN FOR CONNECTICUT

Anthony E. Wallace, President and Chief Executive Officer, Connecticut Light and Power Co., Hartford, is appointed volunteer State Chairman for the Savings Bonds Program in Connecticut by Treasury Secretary William E. Simon, effective immediately.

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

Wallace attended the University of California at Los Angeles and the Harvard Business School. Before his employment by CL&P, he served on the faculty of Hillyer College -- now the University of Hartford -- and was Assistant Director, Research and Planning Division, Connecticut Development Commission.

In 1952, he joined CL&P as a member of the Area Development Staff. He subsequently served in the positions of Public Information Manager, Assistant to the President, and Vice President/Administration, before being elected Executive Vice President and a company Director in 1966. He assumed his present post in 1968.

Wallace has long been active in a variety of business, civic, and professional organizations. He served three terms in the Connecticut General Assembly, including time as Speaker of the House. His current affiliations include: Trustee, Samuel I. Ward Technical College, University of Hartford; Director, University of Connecticut Foundation; Director and Vice President, Chamber of Commerce of the United States; member, National Emergency Committee, National Council on Crime and Delinquency; Director, Connecticut Mutual Life Insurance Co.; Trustee, National Council of Christians and Jews; and Vice Chairman, Connecticut Educational Television Corp. He has served the Bond Program since 1969 as Chairman of the Hartford County Volunteer Savings Bonds Committee.

He and his wife, Helen, have two sons, Anthony, and Richard.

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STATEMENT OF THE HONORABLE JOHN M. HENNESSY
ASSISTANT SECRETARY OF THE TREASURY
FOR INTERNATIONAL AFFAIRS
BEFORE THE FOREIGN OPERATIONS SUBCOMMITTEE
OF THE SENATE APPROPRIATIONS COMMITTEE
MAY 28, 1974, at 10:00 A.M. EDT

I am pleased to be here today to present the Administration's FY 1975 appropriations request totaling $1,006 million for the international development lending institutions. I strongly urge that this Committee and the Congress act favorably and appropriate the amounts requested.

Before turning to the specifics of our appropriation requests for FY 1975, I would like to respond to the view that recent rapid changes in the world economy -- and the energy crisis in particular -- argue against our continued support of the international lending institutions. I believe the opposite is true, and that the arguments for continued U.S. leadership in this area are strengthened by recent events.

Doubts have been raised about the level of U.S. participation in the international development lending institutions in view of: 1) the overwhelming problem the developing countries face in paying for oil; 2) the possibility

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that money would go through borrowers' hands into oil-producers' pockets; and, 3) the possibility that the oil exporters will not assume responsibility for a fair share in the aid burden. These concerns are serious, but I hope to demonstrate that they are not well-founded.

First, it is true that the problems confronting many developing countries are of serious magnitude -- the World Bank estimates that the external capital requirements of the LDCs will increase by $10-12 billion per year from now until 1980, as a result of recent price increases of oil, food, and fertilizer. This added need for capital in the developing countries increases the urgency of assistance flows from industrialized countries. A reduction of our aid flows would only aggravate the precarious position now facing many poor nations. It would also undermine our case that newly rich nations now have to join in the international effort by contributing their fair share of international assistance.

Second, the international development lending institutions cannot be used for paying the increased oil bill of the hard-hit developing countries. The institutions finance specific development projects, and do not support imports of basic commodities such as oil.

Third, there is already concrete evidence that the oil-producing countries will recognize that their new affluence carries with it important responsibilities to poor countries.

Iran has already made resources available for lending to developing countries. Venezuela is in the early stages of negotiating a trust fund under the Inter-American Development Bank of reportedly up to $500 million for financing development in poor Latin American countries, and has also pledged $30 million of new resources to the Caribbean Development Bank. Abu Dhabi, Oman, Kuwait, Libya, Saudi Arabia, and Bahrain are participating in the World Bank bond purchase programs. Several of the OPEC countries have pledged $3.3 billion toward the special new IMF facility aimed at providing assistance to countries with oil-induced balance of payments problems. An Arab Fund for African Development is under discussion, and additional resources are to be made available to Islamic countries.

There are positive overall economic and foreign policy reasons as well for us to move promptly on those appropriations which are related to the recently changed world economic situation. First and foremost, the United States cannot legitimately call for an international solution to such problems as energy, food supply, population, trade and monetary reform, if we shun our own responsibilities in the areas of international economic development. These problems are all intimately linked. To eliminate, or reduce, our contributions to the international development lending institutions would represent an inward turning on our part which could be used as a justification of similar measures by other countries, undermining the very cooperative system we are trying to strengthen. Of course, the work and effectiveness of these

institutions in helping poor nations help themselves is important in its own right.

With this backdrop in mind, I would now like to discuss briefly the proposed appropriations. The total request of $1,006 million consists of a $500 million contribution to the Fund for Special Operations (FSO) of the Inter-American Development Bank (IDB); $320 million for the International Development Association (IDA); $50 million for the Consolidated Special Funds of the Asian Development Bank (ADB); and also two requests for which authorizing legislation is pending. The first of these is $120,635,000 for an increase in our Ordinary Capital contribution to the ADB; and the second is $15 million for the African Development Fund (AFDF).

While the amounts are large, the economic cost to the United States of supporting these institutions is much smaller than the aggregate figures indicate. Eighty percent, or $97 million of the $121 million requested for ADB Ordinary Capital, is in the form of a guarantee; thus only $24 million would require a budget outlay. In addition, the budgetary impact that would result from all of these appropriations would be spread over several years and much of our contribution to these institutions returns to us in the form of payment for the sale of goods and services.

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According to a recent study prepared by the Congressional Research Service of the Library of Congress for the House Committee on Foreign Affairs, the aggregate balance of payments effect of U.S. participation in these institutions has been overwhelmingly favorable to the U.S. I would like to submit for the record in Annex I two very instructive tables developed for this report by the Congressional Research Service and highlight their conclusion: the cumulative balance of payments result of U.S. involvement in the World Bank Group (including IDA), the Asian Development Bank and the Inter-American Development Bank (including FSO) to date has been a net surplus of $2.1 billion for the United States. Of course, as disbursements on loans are drawn down over time there could be some decline in this figure -- but the point is that in balance of payments terms we can well afford the program.

In terms of our Gross National Product and our budget, these contributions represent less than one-tenth of one percent and only one-third of one percent respectively. The cost of maintaining an appropriate level of international responsibility in this area is a most reasonable one and the burden of development assistance falling on the U.S. has been shifting to other countries in keeping with this Committee's concern. This shift is already apparent in the present ADB and AFDB appropriations requests and will be

incorporated in future IDA and IDB replenishment requests.

INTER-AMERICAN DEVELOPMENT BANK

For the Inter-American Bank the Administration is requesting $500 million for the Fund for Special Operations (FSO). This amount would represent the final installment of the U.S. contribution, totaling $1 billion, authorized by the Congress in March, 1972, originally negotiated by the Executive Branch in April 1970.

The Fund for Special Operations, as you know, constitutes an important part of the Inter-American Bank's structure. Its resources, which come entirely from member country contributions, are used to support projects in the poorest Latin American countries.

Only about $100 million in convertible currencies will remain uncommitted in the FSO at the end of the present calendar year. The proposed $500 million U.S. contribution now requested would allow only for maintaining FSO lending in dollars for 1975 at this year's projected level of $400 million, with some provision for 1976. This would be a bare minimum given the loan demand from the relatively poor Latin American countries which borrow the bulk of FSO funds.

Let me also address the question of the quality of the operations of the IDB, a matter that has been of major concern to this Committee. Specific steps have been taken since last year to improve its work and to strengthen its organization. Committee members already know about the Group of Controllers and the good work being done on external evaluation and review of projects. The U.S. member of the group is now Mr. Edward Tennant, who was formerly Auditor General for Foreign Assistance of the Agency for International Development. Thus far, the Group has completed 11 reports -- the most recent ones on Planning and Programming, Global Loans to Financial Institutions, and on a regional integration organization. Recommendations contained in these reports are in the process of being implemented.

In connection with the concern of the Committee and Congress about the follow-up on IDB loan projects, we can report the initiation by the Executive Branch of an active program of inspection trips to the field covering all the institutions. These have yielded concrete evidence that IDB loans are contributing successfully to economic and social development in Latin America. For example, following the last IDB annual meeting in Santiago, Chile, Members of Congress and other members of the U.S. delegation had the

opportunity to see how IDB-financed projects contribute to economic and social development in Latin America.

In concluding my statement on the IDB, I want to emphasize that our request for appropriation of $500 million takes on special meaning in the light of the closer ties we are attempting to forge with the countries of Latin America, based on a concept of a community of interest. One of the subjects of greatest concern to the Latin American Foreign Ministers at two recent conferences -- one in February in Mexico City, the other last month in Washington -- was the general decline in U.S. contributions to Inter-American institutions and to the IDB in particular. Secretary Kissinger pledged on those occasions that the Executive Branch would do its utmost to maintain our aid flows to Latin America. In turn, the newly oil rich nations of the region were asked to join in helping to finance development.

INTERNATIONAL DEVELOPMENT ASSOCIATION

The $320 million we are seeking today for the International Development Association (IDA) represents the third and final installment of our $960 million contribution to the IDA Third Replenishment.

As the members of the Committee are aware, IDA is an integral part of the World Bank, employing the same expert staff, and following the same rigorous standards of project

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appraisal and supervision. IDA funds go to the poorest of the developing countries, those with per capita incomes of less than $375 per year. These are countries which, because of their poverty, have extremely limited capacities for financing investment from their own savings. Similarly, their opportunities for obtaining external capital from sources other than IDA are limited, if not non-existent. IDA is thus crucial to the hopes of their citizens for better and more fruitful lives.

Major sectors in IDA lending have been agriculture (28 percent), transportation (25 percent), and electric power (8 percent). Recently, new fields such as education and family planning have received increased emphasis, with the growing realization that improvement in human skills and the curbing of excessive population growth can be as important to economic development, if not more important, than the accumulation of physical capital.

I would also like to call your attention to the fact that in its Report of May 11, 1972, on supplemental appropriations, the Conference Committee agreed that there was no intention of denying each of the three annual installments of $320 million in the three fiscal years beginning July 1, 1972.

I again urge the Committee to act, as you did last year, in the spirit of that joint explanatory statement, particularly in view of the fact that our payments are one

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year behind those of other IDA donors.

ASIAN DEVELOPMENT BANK

For the Special Funds of the Asian Development Bank (ADB) the Administration is now requesting $50 million. This $50 million is part of a $100 million authorized contribution to the Special Funds of the ADB, of which the first $50 million was appropriated last year.

Since authorization of the U.S. contribution of $100 million in 1972, a multilateral effort has been made to establish an Asian Development Fund (ADF). The $100 million already authorized would be counted towards the U.S. contribution to the Fund and would, by agreement with other donors, be 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.

Last year when the Congress decided to reduce the Administration's request for the first $100 million to $50 million, it recognized the beneficial burden-sharing aspects of the new ADF proposal; and the Joint House Senate Conferees Report stated that the conference managers had no intention of denying a fiscal year 1975 request for the balance of $50 million when presented by the Administration. The conference managers supported the favorable burden-sharing arrangements embodied in the proposal of which the $100 million was a part.

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Our contribution of $50 million appropriated last year, combined with the request now before you will mobilize $250 million from other donors in their first stage contributions to the ADF. While there will be no commitment to the ADB concerning future U.S. contributions, we plan next year to request a third $50 million contribution. This would make a total U.S. contribution of $150 million, and taken with the $375 million contribution by other donors, would complete the ADF's initial resource mobilization plan, providing a total of $525 million in concessional resources to the ADF. This is in addition to the $330 million in ADB Special Funds already contributed by other donors -- excluding the U.S. To the extent that such contributions were made since January 1, 1973, contributors are entitled to credit them against their ADF pledges.

The FY 1975 budget also includes an appropriation request for an increase in the U.S. share of capital stock in the ADB. This was also included in our request last year to this Committee, but the Congress did not take action on the authorizing legislation. It is now anticipated that action on the ADB Ordinary Capital authorization will take place shortly in the Senate and subsequently in the House. The total new U.S. Ordinary Capital participation would be

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$362 milion, of which 80 percent (about $290 million) would be callable guarantee capital and 20 percent, or about $72 million, would be paid-in. Budgetary expenditures result only from the paid-in capital portion as the guarantee capital serves to back ADB borrowings in private capital markets, and would only be called in the most unlikely event that the Bank experienced sizeable loan defaults.

We strongly support this proposed U.S. participation in the Ordinary Capital increase, which became effective in November 1972 and has been subscribed to uniformly by other donor nations. As a result of our not subscribing, our present voting power has dropped from 18 percent to 8 percent, putting us below that of Japan, India, and Australia. Participation in this capital increase will enable the U.S. to regain a level of voting strength which will reflect U.S. interests in the Bank and the Asian area.

Finally, Mr. Chairman, I would like to comment on the issue of procurement and the U.S. share in the Asian Bank. Both you and we have been greatly concerned about increasing the percentage of contracts resulting from ADB-financed projects awarded to U.S. business firms. In this respect, Mr. Chairman, our expectations were largely realized in 1973. U.S. procurement from the Bank's Ordinary Capital lending operations more than doubled last year from 8 percent to 17 percent -- a marked improvement, which is largely

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attributable to the exchange rate realignments effected since 1971. Nevertheless, in order to improve the U.S. position further, we will intensify our contacts with U.S. firms, and improve the flow and distribution of information to private U.S. firms on upcoming ADB procurement opportunities.

AFRICAN DEVELOPMENT BANK

This year's appropriation proposal contains our first request for a U.S. contribution to the soft loan facility -- known as the African Development Fund (AFDF) -- of the African Development Bank (AFDB). Since this is the first time that the Committee has been formally asked to consider U.S. participation in this Fund, I have attached a brief outline of the history of the AFDB and the AFDF. (See Annex II.)

The African countries worked hard to create their own regional bank and have contributed their own resources in an admirable demonstration of self-help.

The AFDF will contribute significantly to African development by specializing in small, high priority projects directed at the very poor of the region, and by promoting the regional integration so essential to Africa's development. While the amount requested is small, and is not contemplated to increase significantly in the next few years -- for

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example we are not planning any requests in addition to this $15 million for next year -- it is important that the U.S. show its concern for, and interest in, the development of the countries of Africa thorugh the concrete step of participation in the AFDF. All other major industrial nations except France have joined the Fund, and both Canada and Japan have already pledged contributions of $16.5 million each -- more than our request before you.

The cost to the United States of participating in the Fund is small and entirely reasonable. We would be only one of 16 nations to contribute. The total contribution from these 16 donors and from the AFDB itself would be about $115 million, over $85 million of which is already subscribed. Our proposed contribution of $15 million is only 13 percent of this total. Contributions by the donor countries are being made over a three-year period. The expected U.S. budget outlay would be only $1 million in fiscal year 1975.

At the same time, I wish to confirm to this Committee that the U.S. has undertaken no commitment to participate in the Fund, although the U.S. participated actively in drafting the Articles of Agreement of the AFDF in order to be assured that it would be put on an effective and soundly managed basis.

Legislation to authorize U.S. participation in the AFDF with a contribution of $15 million has been introduced by Senator Humphrey in the Senate. It is our hope that once Congress has completed its consideration of the pending authorizing legislation for the International Development Association it will then turn its attention to the request for the AFDF.

In sum, Mr. Chairman, we feel that these appropriation requests deserve your approval and support. They are of great importance to our overall international economic objectives. The institutions involved are run on a sound basis and provide development assistance competently. This assistance is of direct and lasting benefit to the developing countries, and because of our worldwide interests, to the United States itself. The current international economic situation lends added importance to this request. To withdraw our support from these institutions now would be shortsighed and particularly damaging to our broader interests.

It is the responsibility of the Congress to weigh this request against competing priorities. The thrust and weight of my testimony has been directed towards convincing you that this request deserves a very high priority. Its benefits are manifest, important, and affordable. I firmly believe it should receive your support.

Thank you.

TABLE 1—BALANCE OF PAYMENTS BETWEEN U.S. AND BANKS, CUMULATIVE (INCEPTION TO 1973)[1]

	Millions
U.S. payments to banks:	
World Bank Group subscriptions	$1,460.2
Inter-American Bank subscriptions	964.8
Asian Bank subscriptions	55.3
World Bank bond sales in United States	2,492.0
Inter-American Bank bond sales in United States	423.2
Asian Bank bond sales in United States	52.0
WBG earnings on investments in United States	1,284.0
IDB earnings on investments in United States	221.3
ADB earnings on investments in United States	39.1
Total U.S. payments to banks	6,991.9
	Millions
Bank payments to the United States:	
World Bank Group U.S. procurement	$4,391.0
Inter-American Bank U.S. procurement	733.0
Asian Bank U.S. procurement	12.5
WBG interest to U.S. bondholders	1,308.0
IDB interest to U.S. bondholders	149.7
ADB interest to U.S. bondholders	7.0
WBG administrative expenses in United States	617.9
IDB administrative expenses in United States	184.3
ADB administrative expenses in United States	16.5
WBG net long-term investments in United States	2,094.0
IDB net long-term investments in United States	68.5
ADB net long-term investments in United States	82.0
Bank payments to the United States	9,664.4
Net U.S. payments surplus	2,673.5

[1] Data for World Bank Group by fiscal years (July 1–June 30); IDB and ADB data by calendar years; tables exclude data on IFC and SPTF, to which the United States has contributed $25,000,000 and $525,000,000, respectively, but for which other data are unavailable. The full data for this table can be found in apps. I-1 through I-6.

TABLE 2—ANNUAL BALANCE-OF-PAYMENTS EFFECTS OF THE BANKS, AGGREGATE 1965–72[1]

[Dollars in millions]

Year	Amount	Year	Amount
1965	225	1969	342
1966	593	1970	453
1967	361	1971	−228
1968	87	1972[2]	471

[1] Excludes FSO data, for which data are unavailable on an annual basis. Except as discussed later in the text, FSO contributors are usually tied to procurement in the donor country. Years are by fiscal year for World Bank Group and calendar year for ADB and IDB.
[2] Excludes ADB data, which are unavailable for 1972. The 1971 ADB figure was −$34.

Source: Foreign Affairs Division, Congressional Research Service, Library of Congress; The United States and the Multilateral Development Banks; prepared for the Committee on Foreign Affairs; March 1974, pp. 148-9.

PROSPECTIVE UNITED STATES
PARTICIPATION IN THE AFRICAN DEVELOPMENT FUND

The African Development Bank was established in 1964, when many of its member countries had just gained independence, and now has a membership of 39 African countries. The capital structure of the Bank is composed of both paid-in and callable capital just as in the other international financial institutions. As of the end of 1973, this capital amounted to $385 million, of which $130 million is paid in and the remainder callable. As of the same date, the Bank had authorized $130 million in loans for 60 individual projects in 31 member countries. All projects have been financed at near market terms, i.e., 6 - 8-1/2 percent interest and maturities of 10 to 20 years.

It has been recognized for some time that many African nations are in acute need of concessional lending resources from the industrialized nations. It was to meet this need and to encourage the commitment of resources from outside the African region that the African Development Fund was established. In 1966 the Bank started discussions with the United States and other developed countries on the possibility of establishing a concessional loan fund in association with the Bank. The donor nations, including the United States, agreed upon principles for the establishment of the Fund at a Development Assistance Committee meeting of the OECD in March, 1971. After approval by the Board of Governors of the Bank, the African Development Fund was established on June 30, 1973.

The United States participated actively in the drafting of the Articles of the Fund. We wanted to be assured that the Fund would be put on a sound basis and would be effectively managed. We believe we succeeded fully in this objective and that major efforts were made to meet well-known Congressional concerns. For example, the Articles of the Fund, alone among the development institutions, contain a provision requiring a comprehensive and continuing review of completed projects by an audit committee reporting to the Board of Directors.

The Fund is legally separate from the Bank and managed by its own Board of Directors, consisting of six representatives of the donor countries and six Bank Directors, with each group holding 50 percent of the total voting power, and a 75% weighted vote for all operational decisions. As in the case of the concessional funds of the other international development lending institutions, the Fund uses the Bank's staff and draws upon its experience and expertise.

By the end of last year, thirteen other industrial nations had ratified the Fund statutes and pledged a total of more than $90 million. In addition, the Bank has committed to the Fund approximately $6 million from its own earnings. Although only in existence a little over eight months, the Fund has already made three loans totalling about $5 million for irrigation and assistance programs in the countries of the Sahel, as a result of an initial decision to give priority in its lending to this drought stricken disaster area.

A soft loan window for Africa has been urgently needed. Africa is the least developed continent. Its peoples are the poorest in the world. In per capita GNP terms, 43 of its countries have incomes of less than $360 and ten of these have incomes of less than $100. Yet, the loans from the Bank's ordinary capital resources have had to be on near-commercial terms. This is a serious limitation since many of the pressing development projects in Africa cannot be financed on conventional terms. Many of these projects are not directly profitable in the short run but they are indispensable for economic and social progress. Their financing must be on more lenient terms and conditions than those offered by the Bank's ordinary capital resources. The Fund can provide the resources on the terms required. It can also promote the sort of regional economic integration and joint development projects which the U.S. has always supported as necessary in countries with small markets.

The Fund can also serve as a magnet to attract capital from the oil-rich countries of the region. We already have indications of the willingness of oil-exporting nations of Africa to increase their contributions for the economic development of the continent. Libya, Nigeria, and Algeria will increase their participation in the African Development Bank's Ordinary Capital. Libya has also indicated its willingness to give the Bank access to a special pool of $100 million in development funds it has created.

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The U.S. stands to benefit substantially from a modest role in the Fund. Our relations with Africa have assumed greater significance as the developed world's need for industrial minerals and fuels has drawn U.S. investors and traders to Africa. A growing consciousness of the limits on world resources has highlighted the economic potential of the area. To illustrate, the continent possesses 42% of the cobalt, 34% of the bauxite, 17% of the copper, and about 23% of the world's known reserves of uranium ore. Africa will necessarily be an increasingly important source of vital U.S. imports. Thus, our enlightened self-interest dictates that we build sound economic relations with the nations of Africa. Participation in and support of the Fund is one means of furthering this goal. Participation in the Fund would also be perceived by the African nations as an indication of our interest in their growth and prosperity.

Furthermore, under the Articles of the Fund, procurement of goods and services for projects financed by the Fund may only be from member nations. Thus, until the United States joins the Fund we will be precluded from this potentially substantial source of export earnings, particularly if the Fund should be expanded by the contributions of the other countries.

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CORRECTED VERSION

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FOR IMMEDIATE RELEASE May 28, 1974

WEBBER SWORN IN AS ASSISTANT SECRETARY OF
THE TREASURY FOR LEGISLATIVE AFFAIRS

Treasury Secretary William E. Simon today swore in Frederick L. Webber as Assistant Secretary of the Treasury Department for Legislative Affairs. He had been Special Assistant to the President for Legislative Affairs at the White House, specializing in relations with the United States Senate.

Previously, Mr. Webber was Vice President for Employee Relations with the American Paper Institute of New York, New York, and Washington, D.C. From 1970 until December 1972, he was Special Assistant to the Secretary of Labor for Legislative Affairs. During 1966-67, Mr. Webber was legislative liaison for the National Forest Products Association in Washington, D.C., and from 1968 to 1970 he served as Administrative Assistant to Congressman John Dellenback of Oregon.

Mr. Webber is married to the former Ann Bouker. They have three children and reside in Alexandria, Virginia.

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May 30, 1974

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BIOGRAPHY

FREDERICK L. WEBBER

President Nixon nominated Frederick L. Webber as Deputy Under Secretary of the Treasury Department for Legislative Affairs on May 9, 1974. At that time he was serving as Special Assistant to the President for Legislative Affairs (from June 1973) and was specializing in relations with the United States Senate. Mr. Webber was redesignated Assistant Secretary for Legislative Affairs and sworn in on May 28, 1974.

From January 1973 to June 1973, Mr. Webber was Vice President for Employee Relations with the American Paper Institute of New York and Washington, D. C. From 1970 until December 1972, he was Special Assistant to the Secretary of Labor for Legislative Affairs. During 1966-67 he was legislative liaison for the National Forest Products Association in Washington, D. C., and from 1968 to 1970 he served as Administrative Assistant to Congressman John Dellenback of Oregon.

Mr. Webber was born on January 4, 1938, in Portland, Maine. He was graduated from Yale University in 1961 and attended graduate school at American University. From 1961 to 1966 he served as an officer in the U.S. Marine Corps. He is presently a Major in the Marine Corps Reserve.

Mr. Webber is married to the former Ann Bouker. They have three children and reside in Alexandria, Virginia.

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FOR IMMEDIATE RELEASE May 28, 1974

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $4,500,000,000, or thereabouts, to be issued June 6, 1974, as follows:

91-day bills (to maturity date) in the amount of $2,600,000,000, or thereabouts, representing an additional amount of bills dated March 7, 1974, and to mature September 5, 1974 (CUSIP No. 912793 UN4), originally issued in the amount of $1,804,950,000, the additional and original bills to be freely interchangeable.

182-day bills for $1,900,000,000 or thereabouts, to be dated June 6, 1974, and to mature December 5, 1974 (CUSIP No. 912793 VB9).

The bills will be issued for cash and in exchange for Treasury bills maturing June 6, 1974, outstanding in the amount of $4,301,440,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,423,245,000. These accounts may exchange bills they hold for the bills now being offered at the average prices of accepted tenders.

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, June 3, 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 and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions

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with respect to Government securities and borrowings thereon may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on June 6, 1974, in cash or other immediately available funds or in a like face amount of Treasury bills maturing June 6, 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

SECRETARY WILLIAM SIMON: PRESS CONFERENCE

Treasury Building, Washington, D. C.

May 25, 1974

SUBJECT: Announcement of the post of Economic Policy Coordinator

SECRETARY WILLIAM SIMON: ....what we think should be done, if indeed anything should be done, and then periodically, we meet with the President to make specific recommendations in specific areas about what should be done, presenting differences of opinion, when they exist, which surely they exist. Any time a group of intelligent men get together and talk about something as complex as the American economy they're going to have a different opinion as to what ought to be done. And the President has always made the final decision and always will make the final decision.

As far as the role of a coordinator, we all have very important jobs in this government. Secretary of the Treasury and economic policy is one important aspect of being Secretary, but there's also tax policy, and trade policy and other areas that the Treasury is involved with daily, because one cannot do anything in the government domestically or internationally that doesn't cut across economic policy one way or another.

And so one could argue rather compellingly that the President could very well use a man whose function was concentrating on the area of coordination, among all the departments who are active in the area of economics.

Q: But would that be the role that Mr. Shultz played?

SECRETARY SIMON: Well, one might say that it was, and one might also say that he didn't have time to spend the amount of time on that doing everything else that the Secretary of the Treasury does, domestically and internationally. And that his plate was -- was too full; I think George would even certainly agree with that statement.

Q: If there is an economic coordinator will this reduce your access to the President?

SECRETARY SIMON: Absolutely not. I've always had, as you gentlemen know, ready access to the President. And when I feel that, away from the meetings we have on a regular basis, when I feel that there are areas that I should speak with him about, indeed he encourages not only myself but Arthur Burns and other individuals in the team to come and see him and sit and spend whatever time is necessary. And I've always had immediate access, and will continue to.

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This is not a diminution of any ability; it's more of a beefing up of an ability to focus on the issues.

Q: ...the paper work proposals and everything that the Treasury has, let's say your department, will flow through this coordinator?

SECRETARY SIMON: When you say flow through, that is the bureaucratic process. Finally after we all sit down somebody says at the end of the meeting, you know, we've got to put all these ideas together on one sheet of paper and then it gets down on one sheet of paper and it's redistributed to everybody for editing and changes, or changes in emphasis, or the options are changes, or opinions are registered and separate options that Simon and Ash feel this way, Stein, Flanigan and somebody else feel the other way. And at that point the President makes a decision which way it should go.

Q: But certainly the Treasury view -- if it's presented -- if the Treasury Secretary is the one who ultimately advises the President -- then certainly Treasury views have a better chance of prevailing, don't they?

SECRETARY SIMON: Well, you can look back on that and make your own conjecture as to whether Treasury views have prevailed all the time. I don't think anybody's opinion -- fine, we think that we have a degree of professionalism in this area, that obviously it is our area, finance and economics in the Treasury Department, so we have our strong views on subjects, but it would be folly for me to say that they always prevail, nor did they ever always prevail.

Q: Has the decision been made on who this coordinator is to be?

SECRETARY SIMON: Well, we'll let the President make that announcement if there is to be one.

Q: You don't know whether it's...

SECRETARY SIMON: As George -- as George used to say, I -- I never pre-empt the President on announcements of any sort.

Q: There has been a criticism that the President has been very insulated and that he is only seen quite often by a few people. I would assume this would add one more name and -- I mean, as you perhaps have one other gentleman who would be the -- another layer to add to the insulation. Is this...

SECRETARY SIMON: I don't think -- I don't consider that insulation. There again, I can speak from my personal experience and I've had no problems seeing the President. And as you well know, during the energy thing, I used to see him a couple of times a week and I'd talk to him on the phone every day. Since moving back to the Treasury I see him at least once a week, and

I talk to him on the telephone whenever I have to. Here again recognizing that I only go to the President with issues when it's important enough to bother him with or whether in my judgment it's important enough. Other times I have our eight o'clock ... eight-thirty meetings in the White House and I talk to General Haig several times a day, and if it's just something he should routinely pass before the boss in a routine way for a decision. Otherwise I'll go direct. But it's matter of judgment. We're all busy and our guys here in this department function the same way.

Q: Is that primarily a one-way street, where, with the coordinator, the President would be going much more to him than calling you up?

SECRETARY SIMON: Absolutely -- absolutely not. Absolutely not. No.

Q: There has been some discussion, Mr. Secretary, of the possibility of creating a national planning agency to deal with shortages in the country and plan ahead for them. Do you have a position? Do you think there is a need for a new agency of some sort to watch over these things?

SECRETARY SIMON: We, after an exchange of letters with -- between Mike Mansfield and the President -- we met on the Hill with Mike Mansfield and Carl Albert, Hugh Scott and John Rhodes, Les Arends and Bob Griffin. I don't think I've left anyone out -- the leadership and the minority -- to discuss this very subject. And they are going to propose specific legislation for a temporary commission that we will staff with the leadership from the Hill and the leadership from the Executive branch and public members yet to be identified. And we'll get together and discuss who they would be, appointed by the President.

And this -- this is a good idea from several points of view. It's a good idea from the point of view of the Executive and the Legislative sitting down together in the work process to identify problems in the economic area and ome of the basic causes. And I -- I even believe it'll, you know -- it can go beyond as the chemistry develops in this working mechanism to bring Congress and the administration closer together. And it's very healthy, and it's healthy for our country.

Q: You foresee it resulting in the establishment of some sort of permanent commission?

SECRETARY SIMON: I would say that that -- that would be premature on my part to prejudge what our -- what our conclusions might be in this area. We have a -- what I consider an outstanding economic analytical group in Treasury in CEA, in the Department of Agriculture, in the food area, and in other departments that have done a great deal of this work already. Now whether or not that mechanism has to be strengthened, made more cohesive, coordinated, or whether a separate group should be established, that's what we'll take a look at, once we identify what the problems are and what we intend to do about them.

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Q: Back on this coordinator idea, you -- you envision it as more or less a sort of staff operation, a matter of more or less mechanical coordinating, or -- or a major policy input from this person, as well?

SECRETARY SIMON: Again, and let's talk about this embargo for a minute. If this isn't announced between now and Monday, I don't want to get quoted on any of this stuff, because that wouldn't be right. It comes under the heading of pre-emption, so I'm assuming the President has said something about this between now and the time you go to press.

Anyway, mechanical, no. I don't think a person can be, or should be mechanical. He will sit in on the economic policy discussions, give his inmput, make the same contribution, derive the benefit from other people's opinions, the same way all of us do.

Q: Would he -- would he chair the troika and quadriad meetings?

SECRETARY SIMON: No, I'm the chairman of the troika.

Q: You're the chairman. How about the quadriad?

SECRETARY SIMON: I'm chairman of both.

Q: Who would be -- would he be considered the spokesman for the President on economic matters?

SECRETARY SIMON: No.

Q: Or would everyone continue to be a spokesman?

SECRETARY SIMON: Sure.

Q: What sort of...

SECRETARY SIMON: Which is, really, you know when you look at it, always the way it's been in government, prior to George. He was an extraordinary human being who had an extraordinary relationship with the President. And it became recognized that as super-capable as that human being was that one human being cannot handle everything certainly. And it's much better if we do split the workload.

Q: Would you outline how this system would work then? I'm still a little unclear how this would work with this coordinator. I wonder if you would outline that, as you see it?

SECRETARY SIMON: Well, I think I'll let the President go into the details, which I'm sure he's going -- which I know he's going to as far as what his envisioned functions are. There again I would say that it's part of -- it's an addition of a senior person to the senior economic policy making group in government.

Q: Will he chair the Council on Economic Policy?

SECRETARY SIMON: No, the President will chair that. Yes indeed.

Q: Will there be -- what will be the deliberative body -- maybe that's not a good word. Will there be one body where all of you people will meet, including the new economics coordinator?

SECRETARY SIMON: The deliberative body has always been the troika and quadriad, plus -- and there again it's never been -- people always say there was a troika meeting on Saturday morning, but it was never really printed that Dunlop and Flanigan and the other newly created entities were represented; people who do have a -- an impact, on decisions, impact in our economy do belong in that room, and it's not a very large group. It's the six people, so now it'll be seven.

Q: I'm still a little unclear. It's -- is --if the purpose is just to have -- add an additional senior person to the group, why do you call him coordinator?

SECRETARY SIMON: Well, it's -- no, there's -- there's a big difference between adding somebody to the group and somebody who's going to be spending his time in the White House coordinating all the economics for the other people and their departments, whether it's Roy Ash in the OMB who's doing a hundred other things, or it's the Secretary of the Treasury doing his hundred other things and running a Department to boot; this man will be concentrating on just that -- that one issue which is important.

Q: Is he going to have a substantial staff of his own, which would have -- which would effect how much input he could have in a policy way?

SECRETARY SIMON: No. It's -- it's not envisioned that he'll have any substantial staff, Lee, no.

Q: Do you have any reservations about...

SECRETARY SIMON: You know when you talk about -- when you talk about a substantial staff, it really isn't needed because we do have substantial staffs who give us our economic input and do all the vast in-depth analysis on all of our problems.

Q: Well, each of you has his own staff.

SECRETARY SIMON: Oh, no. We -- we -- we exchange all these papers, the CEA and the Treasury and the OMB, primarily, and the Fed, tangentially. And these papers are all exchanged, and you don't think that in the Treasury that it's just all one opinion, that everybody thinks that this should be done. No, we have differences of opinion here also.

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Q: What reservations do you have about this...

SECRETARY SIMON: I don't have any -- I don't have any reservations about this whatsoever. And I'll make a personal sidenote when you see who the gentleman is. You'll see what I mean. As a matter of fact, I think it's a darn good idea.

Q: Is it the President's idea? Was it the President's idea, or...

SECRETARY SIMON: Huh-uh. Certainly it was. Evolving out of lots of conversations that we've had.

Q: As I recall in our farewell conversation with Secretary Shultz, he was saying that he thought this overall coordination role was a good one. He said I hope Bill can fill some of. Do you feel any way that you've been preempted from this spot?

SECRETARY SIMON: No, none at all. And I do -- and I do fill it in my role as Secretary of the Treasury, there's no doubt about that.

Q: ...Can we take a look at the budget? Where do we stand on that at the moment? How much of that eleven billion dollars do you think can be pruned as of this date?

SECRETARY SIMON: I don't know. We're -- we're looking at that right now. And we'll make recommendations to the President after we work on the figures.

Q: Do you say you do expect to make recommendations to the President on possible budget cuts?

SECRETARY SIMON: No, I said that we're looking at the possibility of same. What the recommendation will be depends on the results of the work.

Q: When you say we -- "we" is the Treasury or...?
SECRETARY SIMON: We is the economic and the economic mechanism, the group that met yesterday.

Q: There seems to be some dissent within that group whether a budget cut is acutally needed, isn't there? So I'm wondering whether when yo say needed or practical...

SECRETARY SIMON: Mmm?

Q: Needed or practical? Well, you saw Roy Ash's speech.

SECRETARY SIMON: No, I don't really think -- no, he was talking about whether it's possible, not practical. That's -- that's the important thing to understand. When you've got 73 1/2 to 75 percent of our budget of an uncontrollable nature and one looks at where you can rapidly cut things, then there isn't that much hope to make a dramatic step as far as cutting the budget

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is concerned. But there are other things that can be studied and looked at where you might accomplish some fiscal discipline, but it's unclear whether that's the route that'll be taken and we have to do this work first.

Q: Do I understand you mean other methods of fiscal discipline aren't in cutting expeditures?

SECRETARY SIMON: No. Other -- other parts of the budget that have to be looked at before one can determine whether it's possible or not. My bias -- my bias --my bias is obviously to make every effort to do this, yes.

Q: It's not just baying in the wind at the moon...

SECRETARY SIMON: No, I don't consider that baying at the moon or whatever it is.

Q: Well what -- how do you view the -- the difference on this particular issue between you and Ash? I mean there does seem to be one. He -- he -- he says that -- I don't get your distinction between practical and possible. but, in any case, he says that you can't cut anything substantial at this stage.

SECRETARY SIMON: Yeah, is it possible or is it impossible because everything's locked in, and what isn't locked in obviously we would not wish to cut. Well, maybe there are some things we can do in the area of uncontroll-ables, uncontrolled, which obviously would require some legislation, but maybe that should be looked at.

Q: So you're looking primarily at the uncontrollables to see if there are changes...

SECRETARY SIMON: Looking at the whole thing, but the area of the uncontrollables is certainly an area that we want to be looked at.

Q: Would you favor doing away, for example, with such things as the cost of living escalator or social security benefits?

SECRETARY SIMON: No, I wouldn't comment on that now until I've taken a closer look at it -- on any of the specifics.

Q: Can I interpret that that that is among the things...

SECRETARY SIMON: I would say that you can interpret as it just saying the whole budget ought to be looked at and looked at together with Congress and the administration, so that we don't continue to have increased spending that produces the type deficits we've had for the last ten years, actually 14 out of the last 15 years.

Q: With the understanding that you're still -- still not reached your conclusions, has your position been accurately represented, that tentatively, at least, pending a full review, you do think that big cuts are possible?

SECRETARY SIMON: I didn't say big cuts, and that's where I've been badly misquoted, especially in some of the articles that suggested that we bring the 1975 budget into balance. I never suggested that. My suggestion was that we move [illegible] balance.

Q: What sort of timetable do you have for getting the -- looking at the budget and getting that completed?

SECRETARY SIMON: I've learned in government something about being asked about timetables and slippages and...

Q: Aren't you going to have to have a pretty good idea before the new year starts so that by that time Congress...

SECRETARY SIMON: Well let's just say that our budget -- by the time Congress what?

Q: Is going to have to be very much considering next year's...

SECRETARY SIMON: Well, the new year, fiscal year begins a month from now. Practically speaking, we're not going to have anything definitive between now and then. But you know it's never too late to make these suggestions, assuming they're done early in the fiscal year, if suggestions are to be made.

Q: Looking ahead a year, do you think it will be possible to have a balanced budget by 1976?

SECRETARY SIMON: Well, I think it's premature. One must look at what our economic projections are going into '75. But, yes, I would certainly aim toward a balanced budget in '76.

Q: Do you think it would be correct to say that you're more conscious of the need for a balanced budget than your predecessor was?

SECRETARY SIMON: No, I would have no idea. No, I don't think that I'm any more conscious of that.

Q: When the budget was announced, the OMB emphasized that they would bend over backwards to make sure that it was -- reduce the effects of unemployment to a minimum , would break the budget balance, if necessary, to keep the unemployment rate from rising. Now you come into office with a pledge to fight inflation as our number one enemy. Can you give us a picture of where these two forces are considered at the present time?

SECRETARY SIMON: Well, I don't consider them two forces. The President has made his recommendations for unemployment, updated these recommendations for unemployment, and I subscribe to those completely because one cannot just accept unemployment at unacceptable rates and not deal with them, but deal with them specifically.

Q: What do you consider an unacceptable rate?

SECRETARY SIMON: Well, his program, his new recommendation, increase the coverage for workers in uncovered industries. He increased the number of weeks of assistance. And I think that the trigger approach which triggers additional unemployment benefits as the unemployment rate increases from a certain level depending on the area -- and remember unemployment is sort of concentrated in pockets in this country right now -- this energy related slowdown that we've had, primarily the automobile industry and energy related industries.

Q: There's no one figure -- no one neighborhood of unemployment that sticks in your mind which -- which you would consider, either on a local or national level, as a, quote, "unacceptable rate?"

SECRETARY SIMON: There again it all depends on local levels; that number would vary from three percent to five percent really, so you couldn't just say the -- the rate that's unacceptable, because our unemployment insurance has dealt with specific areas with a formula based on historic employment in those areas, which deals more fairly with it across the board.

Q: Can we expect any sort of new -- new initiatives on the inflation situation now, or are you reasonably satisfied that the course is...

SECRETARY SIMON: Well, you say new initiatives, we're always discussing what has to be done about this terrible problem called inflation. Yeah? Would you give me a minute, fellas?

Q: Sure.

SECRETARY SIMON: Be right back.

* * *

SECRETARY SIMON: What's this?

Q: When Shultz took his children over to the department store over there at Christmas time and said, okay, turn them lose, the whole gang...

SECRETARY SIMON: Gee, I -- I've never done that. No way.

Q: Mr. Secretary we were talking about initiatives on the price picture and you said that there ....

SECRETARY SIMON: Well, I'll tell you, my answers aren't going to surprise you fellas, and they're not going to be what one calls bold new programs, because, as I've stated several times, I guess one might say that on the financial side I've always been a conservative, and I almost think that -- I not almost think --I think that we're still paying for many of these bold new initiatives that have been proposed over the last twenty or thirty years.

I look at two sides of the inflation picture. One is the fu damental side, which is federal spending. And I couple with federal spending federal financing. And on the federal spending side, I think that here again since in 14 of th- -- -t 15 yars, having budget deficits is wrong, and I think we should start moving back in the other direction. I won't sit here and say it's the Congress' fault. It's the United States government, it's Congress, and it's the Executive branch that's going to have to work together to bring federal spending under control.

The new budget reform process that is on the Hill now is a step in that direction, and it's an important step in that direction, a recognition that we have to get back to that old time religion and plan to spend what we take in in this country. And that's a fundamental. I'm not saying it's a cure-all, because I happen to agree with Arthur Okum. I happen to agree with Arthur Okum who said that if we had the ability for foresight, and exercising a little hindsight, a balanced budget might have knocked two points off the CPI, but if we could have foreseen food and energy we could have knocked five points off. Well, that's fine. I'll agree with that. I'll go a step further and say that if we had the ability to foresee some of the problems of the future and study and forecast as we constantly do in government, that we will still have an unacceptably high rate of inflation if we don't deal with the federal spending side at the same time.

And that's where we get into the proposals that you've all read and that John Dunlop has made, which I think are ve y good ones. Deal first with federal spending and then deal with the supply and capacity shortages of the future that we can foresee. Start making plans to deal with them now.

Q: Secretary, perhaps we could make one exception to our embargo and talk to you about one subject for immediate attribution, if we could, and that's the subject of the IRS and the Judiciary Committee. Would you confirm that you have asked Attorney General Saxbe for a ruling on whether the IRS could handle the audits of the President's tax return to the Judiciary?

SECRETARY SIMON: Yes, we received a request through the Internal Revenue Service for the President's tax returns, and the Commissioner of the Iternal Revenue came to me and, through our legal people here, it was deemed to be an extraordinary, difficult legal decision, and so I wrote a letter to the Attorney General requesting a legal opinion. I would expect to have an answer to that very shortly.

Q: Is it -- it's not just the returns that they're asking, are they? I mean those -- those are available. They're in the joint committee's report. The joint committee, as I understand it, is to make these files available to the House Judiciary Committee.

SECRETARY SIMON: No, I'm not sure of that, Lee. I'm under the impression it's the income tax returns, the physical documents that they...

Q: Not -- not -- not....

Q: The second audit....

SECRETARY SIMON: Ed Schmaltz(?), please.

Q: The returns are no problem.

SECRETARY SIMON: Mmm?

Q: The returns are no problem, I would think.

SECRETARY SIMON: Hello? Ed there? Bill Simon. Thank you.

On the contrary, I think that the returns are a problem.

Hi, Ed.

Let me get one thing clear on what the Judiciary Committee asked the Internal Revenue Service. The President's tax returns, correct? Anything else? Oh, yeah. Fine. But that's all. And they don't right now have access to any returns, obviously, do they; or not entitled to it, that is the question, isn't it? Thank you Bill.

No, they -- they don't have the returns, they do not have access to it, and the information that -- relative to the investigation on each return -- that's developed in their investigation.

You know, the Internal Revenue Service.

Q: Information on -- well, information on the Internal Revenue Service's investigation?

SECRETARY SIMON: That's all they asked for.

Q; Is it correct that the Treasury's general counsel's office's own opinion was that the House Judiciary Committee should get these; that you wanted to have this come from the Justice Department?

SECRETARY SIMON: No, we felt that this -- the general counsel advised me, without benefit of his legal opinion, that this was of sufficient import that the decision and legal opinion should come from the Attorney General.

Q: Could not President Nixon -- he has -- would have the authority to give this information to the Committee himself, wouldn't he?

SECRETARY SIMON: I believe that's an accurate statement, that taxpayer could voluntarily say.

Q: You say information on the IRS's investigation of his returns, is that another to say -- of saying the audit papers or...

SECRETARY SIMON: Well, as -- as they do the audit that surfaces the information, sure, you can call it anything you want.

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Q: The thing that -- the thing that puzzles me is why there's problem about the return. I mean, at least copies of the returns have been published. I mean it's just...

SECRETARY SIMON: Copies of -- copies of it have been returned, but the physical documents, without a legal opinion, we cannot -- we cannot authorize the turning over of anyone's income tax returns.

Q: Do you know if the President has been approached by you, or by anybody in IRS that he would voluntarily want to turn this information over to the House Judiciary Committee?

SECRETARY SIMON: No, I have not approached the President on this subject.

Q: Do you think the problems that Franklin National is having now are representative of more general problems in the banking industry, especially in times now of high interest rates and...

SECRETARY SIMON: Anytime that you have a period of high interest rates, the commercial banking business goes through a bit of a squeeze. Franklin's problems were brought about for those reasons and other reasons. And the other reasons, obviously, are due to foreign exchange transactions which were unreported, and one cannot consider those related to any widespread banking problem, or liquidity problem, and that's -- that's exactly what they're having, a liquidity problem, vis-a-vis a solvency problem. And that's why the Fed is giving them assistance in rolling over their CDs and so they can weather this storm for a period of time, and sell their loans and do other things to get themselves...

Q: Have you made it a point to keep up on the Franklin situation?

SECRETARY SIMON: I most certainly have. I have been working with Arthur Burns and the Controller of the Currency and Frank, Willie and the other board members since the day it happened.

Q: Do you have any indication that other banks are having similar problems?

SECRETARY SIMON: No, we do not.

Q: There was -- it was rumored that First National -- First National of Chicago was having problems, is that...

SECRETARY SIMON: I just think that's totally unsubstantiated.

Q: Arthur Burns gives a commencement address Sunday, and at least from the prepared text he gives a rather gloomy view of the fight against inflation. It's a gloomy talk. I'm just wondering what your picture of the inflation fighting by the Administration is?

SECRETARY SIMON: Oh, I haven't read Arthur's speech, so I'm -- I'm not able to comment on what he said. But of course I...

Q: But knowing...

SECRETARY SIMON: I lunch -- I lunch with Arthur at least once a week, and I meet with him on a fairly regular basis. The Chairman and I have very difference of opinion on these -- on these subjects. I think you'll find him a financial conservative of the same sort that I am. It's very simple to be gloomy when a country is going through a period of double digit inflation that we're going through right now. And we look at the cause of this double digit inflation in the last year, primarily, fuel, food, and we can see this particular area easing due to the fact that we will have record harvests this year and commodity prices have declined sharply in the agricultural area. We are certainly not going to see another explosion from this level in fuel prices, and one might even make the case that we're see an dimunition of world crude prices as the year progresses. And I most certainly believe that.

On the negative side of the coin, one can say that the increased price of this basic feed stock for American industry, petroleum, is going to have a racheting effect in the pricing mechanism and the costs of its attendant price increases in many products in our economy. And we also have wage negotiations that will be settled before the end of the year which will certainly be higher than the norm.

And at the end of this year we will continue to have an unacceptable -- totally unacceptable rate of inflation, although, in my judgment, certainly not in double digits. I think that while forecasting is a precarious business, I can see inflation at the end of this year in the area of seven and a half percent.

Q: In Mr. Dunlop's theory it might be even a point higher then that.

SECRETARY SIMON: Well, when I say in the area of seven and a half percent, it's more the direction that -- that I'm concerned with. I'm concerned that we commence doing the right things now that are going to mean that we'll continued to have pressure on the inflation rate to reduce it from where it is at year end, not to see it once again moving up as the year 1975 commences. That's -- that's the important thing.

Q: Dr. Dunlop would believe that it's going to move up in the fourth quarter again.

SECRETARY SIMON: He believes that it will then be -- move back upward, and I -- I do not share this pessimism at this particular time. I think it's probably a little too early to tell, but I'm -- I believe that as we do our job properly that we can reverse this trend.

Q: Do you expect any announcements soon on the -- on the permitting Americans to own gold?

SECRETARY SIMON: As far as gold ownership, as you know, the President has the authority to -- through the Par Value Modification Act, to allow Americans to own gold. Our position has been that gold, the subject

of gold should be dealth with with the other subjects in the international monetary reform, not taken out of --out of context, and that is where we remain.

Q: Have you made any recommendations to the President?

SECRETARY SIMON: No.

Q: That is -- as I recall, Paul Volcher has said several times that he agrees in principle with the idea of private ownership of gold, but that he would -- as I believe he said -- he would want to wait until it was part of a reform package, is that essentially what you're saying?

SECRETARY SIMON: Yes, it is, Lee. And -- and I share Paul's view. As you know, our position has been that gold should be treated as any other commodity.

Q: When he said -- when he said this, people were still talking about a comprehensive reform package. I assume you mean whenever interim steps are taken, like the...

SECRETARY SIMON: Well it all depends on interim steps one's talking about. In the -- in the replacement of gold at the center of the monetary system with the SDR, it's a major step in the direction.

Q: How do you feel about the Italian proposals fo selling gold from the central bank to the IMF...

SECRETARY SIMON: Well, there are a lot of proposals that-- or suggestions. I really don't know that any of these are definitive proposals that have been put forth for discussion, and that's what everybody's doing, discussing these various suggestions. The European Community -- I met with Minister Dossenberg(?) for several hours here some weeks ago to discuss the European community's proposals and their suggestions, and there is a big difference, and they made that distinction, very -- very carefully that this was not a firm proposal. These were suggestions to be put on the table to be talked about.

Q: Well, my reading of the release following that meeting was that you -- the Treasury was pretty much against that suggestion. I wonder if you see...

(Confusion of voices).

SECRETARY SIMON: Well, when one says against that suggestion, I don't think that...

Q: See more cons than pros.

SECRETARY SIMON: Well that -- that's the problem and the real danger in a lot of the suggestions that have been made, is that one can look down the road, and this is a long term solution that we're seeking -- that one can look down the road and see where gold would once again creep back into the center of the monetary system. And the purpose of the exercise is to attempt to assure that that cannot occur. So we must look at what the constraints are and attempt to deal with those.

Q: I think you said earlier you didn't expect there's going to be any bold, new -- what you called bold, new approaches...

SECRETARY SIMON: Well I was being...

Q: But realizing the political realities of being an election year and as we approach the fall elections, and if inflation is not moderating that much, would you expect that the President and yourself and other economic advisers would be under great pressures from the Republicans on the Hill to do something bold to show people more...?

SECRETARY SIMON: Well, when you say bold, you have to tell me what do you mean, price and wage controls? I guess that's considered bold, and there are some that are suggesting that maybe those pressures will -- if those events take place --will again recur toward the end of the year. It's always possible that there will be those that say we should have comprehensive wage and price controls. What I'm saying is that I think that the subject of inflation is the number one subject in our country today. I hear this from every congressman and senator that I talk to on the Hill, and you've got a public awareness of this terrible ill and a desire to cure it. And I believe that we're seeing a new political will come about that is going to start, once and for all, dealing with the fundamentals of the inflation problem and not continually dealing with the results of the problem. And until we start dealing with the causes instead of the results, we're going to have recurring inflation. And just as one does when one sees high interest rates, each time interest rates recede, they recced to a level just above where they were the time before. And we can go back to the credit crunch of 1966 where, I believe, that you'll find the long term corporate rate topped out at about six percent, maybe 6.05 if I remember correctly -- it was the Southern Bell Telephone deal when that turned in August.

Q: ...once you can have magic fives, remember?

SECRETARY SIMON: Yes I do. I think you'll find we had them twice.

Q: How do you convince Americans, though...

SECRETARY SIMON: Well, you see this -- this is part of the problem. Part of the problem is inflationary expectations, and that is why interest rates don't recede to the levels they did the time before, because the expectation demands a higher rate of interest to compensate for the inflation that people believe is still going to be there after this temporary downturn in the rate. So you must convince them over a period of time.

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This is not a problem -- this -- this is the one thing that we have to put across, that this is not a problem that's going to be solved in a year or two years, or five years. We have to get on the road to financial and fiscal responsibility and stability over a longer period of time. And I'm not suggesting this is easy, Tim. I'm -- I'm not politically -- I'm not politically naive, and I recognize that it's going to be extraordinarily difficult, but I think we have an opportunity now, for the first time, with double digit inflation, to stop a lot of the foolishness such as the tax reduction that's being pushed in certain quarters on the Hill. When are we going to learn that excessive spending for the -- for the seemingly short run economic and political gains just works to our longer run disadvantage.

Q: To what extent will this -- this big problem of dealing inflation and -- what -- how -- how's this going to be complicated by the Watergate problems? Certainly this has sapped the President's authority, or attention span, or however you want to put it...

SECRETARY SIMON: I'll tell you, I -- I've dealt in some pretty busy areas since I came to government. Treasury has always been busy, but energy was a hot corner, I guess, and now the economy and inflation is a hot corner. I have no trouble getting the President's attention on these issues and the amount -- the amount...

(Confusion of voices).

SECRETARY SIMON: Wait a minute. When -- when one talks about "it has sapped," I say his -- what did you say? It sapped his...?

Q: Authority.

SECRETARY SIMON: Authoirty. It hasn't sapped his authority whatsoever. If you would have the ability as I have over the last six months, in particular, to sit with him for anywhere from an hour to two and a half hours at a time discussing in detail all these problems, both from a political side as well as a practical economic side and what is -- what is desirable, what is practical, or what is possible, this is a man who has a firm, absolutely firm command of this -- of this subject. And he also knows what's possible and what isn't. And so, I don't -- I just don't see the problem that you describe.

Q: Isn't it difficult, though...

SECRETARY SIMON: And you know, you talk about him -- of course, I think about your article this morning, Tim, about things being in disarray and how government has ceased, well, over the last year, I guess, since Watergate came up -- I've read that from time to time in lots of papers. That's the biggest bunch of nonsense I've ever seen in my life. If government ceased -- I'd like you to describe to me from my vantage point in the Treasury with all the agencies that I work closely with, all the initiatives that have been put forth, that are being worked on; the legislation, not only the legislative front, but the administrative front as well. You people live in the Treasury Department, pretty close to it, maybe you don't live as close perhaps as you should.

Q: You ought to invite us to some of your early morning staff meetings so we could see.

SECRETARY SIMON: You know, let me tell you something. You're not far away from some of my thinking on some of these things, as far as that's concerned, to see -- have you people got an inside look on the broad gauge of issues that we're constantly dealing with and a little bit of the decision making process that goes into some of our thinking, and the amount of work that's done, the substantive work that has been done,and continues to be done in every single one of these areas, whether it's from law of the sea that you probably have never heard very much about, to tax reform, to trade, to negotiations with the Russians, with the Saudi Arabians, with economic policy, and just one thing after another, and then you'd say, well, my God, they've got more to do here than--than people can handle already, what are we talking about when it comes to, you know, who -- who is the chief economic spokesman? Who gives a damn? It's the President's job, it's the President's decisions to make, and he makes each one of them personally. And healways has. I bring all the important decisions, and did in energy to him, and got very rapid decisions after I made my recommendations to him. He sits and he listens thoughfully to my recommendations and to other recommendations. If there's no slight difference of opinion, then obviously it doesn't require a very long meeting, but sometimes there is a difference of opinion, especially when you're dealing with issues that are as complex as these are.

Q: I guess I'm still a little concerned as the election approaches, and not to emphasize the election, but if you're going to tell the American people that the inflation problem is going to take a long time to cure, and if you're going to have President Nixon say this, do you think the Watergate situation has hurt him, that a lot of it is not going to be believable to Americans?

SECRETARY SIMON: No, I don't. Here again, I must admit that the Watergate situation doesn't enter into my mix of thinking when it comes to what has to be done as far as economic policy...

Q: But does it enter into the American public's thinking?

SECRETARY SIMON: Well, you're a better judge of that then I am. What I'm interested in doing, what the President's interested in doing is getting the facts and the truth and what we intend to do about it, and to the best of our judgment how long it's going to take before the American people.

Q: It seems to me that the American public, when you were energy chief, liked the decisive -- decisive actions you took to see that we weren't going to have gas rationing. It would seem to me that they're also looking at what decisive things you're going to do to cut down double digit inflation. Isn't that going to be an awful difficult thing to describe...

SECRETARY SIMON: Well let me...

Q: It doesn't seem to me that you're going to be able to.

SECRETARY SIMON: Talking about -- well, there again, that is...

Q: And that kind of judgment I don't want to make...

(Confusion of voices).

SECRETARY SIMON: No, let me tell, that -- that's a good question. You're talking about, (a), energy, and what can be done physically by moving this here and moving that there, and I'm dealing with a tangible; it's called oil. I know how much I've got, I know what the inventories are, I know, mechanically, if you will, how to deal with the problem and minimize the economic effects and do all the things that we attempted to do.

Now that's a -- really it's -- fine, it's a policy problem, but it relates to a physical entity. Now let's talk about inflation and how fast one can get inflation under control. And when I talk about getting inflation under control, I talk about getting it under control permanently. We can bring it under political control by having a politically acceptable rate, whatever that may be, in a reasonably short period of time, where people say, well, my goodness, thank the good Lord that we don't have double digit inflation any longer. It's still too high, but it's not the catastrophe that it was six or nine months ago. So that can be done, and can be done in a -- in a reasonable time frame. And I believe that the proper fiscal policies right at present and monetary policies are in place to get that done by the end of this year.

But then let's look ahead to next year. And this just goes right back to my subject of energy, as well, where we talk about, okay, now we've got plenty of energy again, the embargo's over. So we do? No we don't. We're producing 11 million barrels a day and consuming 18. Well, the same problem exists as far as the United States government is concerned. We earn 295 and we spent 305, or 306, or whatever it is. Now we have to take care of that gap, don't we? And that takes more time. Just like it takes more time to get us self-sufficient in energy, but we have to work toward it. And just because the heat's off, as the heat's off in the embargo, when the inflation rate moves down, as I believe it will, as the year ensues and takes the heat off this subject, we must not lose our resolve to solve this problem permanently and put the programs into place right now that will solve it permanently, because there again, when you talk about the people out there in this country, I suspect that you're seeing a great change in the American people right now, an awareness that federal spending is indeed contributing a great deal, that we cannot continue to promise and give to the American people constantly, without getting paid for it.

Q: You were talking about the...

SECRETARY SIMON: It's just like raising taxes, you know, this rate of inflation.

Q: You were talking about tangibles, and I assume people -- you know, last months for the seventh straight month, real spendable earnings went down. I assume that people can see tangibly that their pocketbooks are a little lighter than the last month...

SECRETARY SIMON: Yes, they can. And that -- that's a tax, isn't it?

Q: Isn't that going to be difficult, though, at election time when perhaps the other party's saying, well, let's have a tax cut, that'll get you more money in your pocketbooks. How are you going to be able to counteract that and...

SECRETARY SIMON: I'm afraid you're not giving the American people as -- the credit for the intelligence that I am. And I'll suggest that the American people understand basic economics a little bit better than that.

Hello? Thank you.

That doesn't mean that I think this is simple, because I agree with you, it's going to be extraordinarily difficult, and politically it's always more popular to just continue to give and spend and create all the programs that have brought us to where we are today, and I'm suggesting that we have to turn that corner and explain to the people that we cannot continue with this folly.

Q: Doesn't Watergate, though, make it a little weaker for the President's speaking out on this?

SECRETARY SIMON: Not in my judgment it doesn't.

Q: Question on another subject. Among these...

SECRETARY SIMON: I got to get going in a second, fellas. I'm sorry. I've kept an ambassador waiting for half an hour. That isn't in good form.

Q: You mentioned these hundreds of jobs that the Treasury Secretary has to do, and one of them, I think, was sitting on the...

SECRETARY SIMON: That's an exaggeration...

Q: ...Emergency Loan Guarantee Board, and I wonder if you think this, in principle, has worked well in the Lockheed case and whether it might be a tool to be used in the future should another large American corporation be faced with financial...

SECRETARY SIMON: I think that you have to exercise your judgment on things like that, basically on a case by case basis. And Lockheed was judged on a case by case basis. Was it completely their fault? Was it poor management? Was it government contributions, as far as its reliance on government -- that industry? So I don't think as a general rule of thumb that you'd find me in the corner of government having a policy of saving X, Y and Z corporation just because they've gone down, for one reason or another, that's extraneous to actions that we've either taken or not taken...

Q: But in a case where government may have contributed?

(Confusion of voices).

SECRETARY SIMON: Then I'd have to know what the case was and what our contribution was, etc. You cannot just make a broad rule on that. But in Lockheed, ... - it was a useful thing for the United States government to do, yes.

Q: Thank you, Mr. Secretary.

SECRETARY SIMON: Thank you.

(Confusion of voices).

Q: ...making any announcements soon on your deputy or some of the other vacancies...

SECRETARY SIMON: Well -- what other vacancies?

Q: Well, don't you have a general counsel and sort of under-deputy...

SECRETARY SIMON: No. I've got a deputy -- I've got a deputy. Well, the Treasurer's going through the hooper now; that's been going through the hooper over there for about month, FBI and all that stuff, so that's been done. The two under secretaries are in place, as you know. There'll be no deputy under-secretary because Jerry Parsky is going to be -- and that's not to get printed -- an assistant secretary, which is an interchaneable title here. So we're pretty well zeroed in on the general counsel and the deputy secretary -- we're pretty well zeroed in on that too, and a decision will be made on that. For announcement sake, I never know how long things will take to clear.

Q: Is Mr. Donaldson one of the candidates for deputy?

SECRETARY SIMON: I'd rather not comment who my candidates are. Bill's an old pal of mine, you know.

(End of press conference).

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

NEWS

TELEPHONE 634-5248

FOR IMMEDIATE RELEASE
MAY 28, 1974

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REVENUE SHARING DISCRIMINATION CASE REFERRED TO JUSTICE

A CITIZEN'S COMPLAINT OF DISCRIMINATION IN THE USE OF GENERAL REVENUE SHARING FUNDS BY THE CHICAGO POLICE DEPARTMENT HAS BEEN REFERRED TO THE DEPARTMENT OF JUSTICE FOR ACTION BY GRAHAM W. WATT, DIRECTOR OF THE TREASURY DEPARTMENT'S OFFICE OF REVENUE SHARING.

AN INVESTIGATION OF THE MATTER WAS CONDUCTED BY OFFICE OF REVENUE SHARING ATTORNEYS, AUDITORS AND CIVIL RIGHTS SPECIALISTS AFTER THE COMPLAINT WAS FILED, ON SEPTEMBER 14, 1973.

ON APRIL 9, 1974, WATT WROTE THE MAYOR OF CHICAGO THAT, IN WATT'S JUDGMENT, THE USE OF REVENUE SHARING FUNDS IN THE CITY'S POLICE DEPARTMENT CONSTITUTED A VIOLATION OF THE NONDISCRIMINATION SECTION OF THE REVENUE SHARING ACT. THE MAYOR WAS ASKED TO EXPEDITE THE NEGOTIATION OF A CONSENT DECREE IN LITIGATION PREVIOUSLY INSTITUTED BY THE DEPARTMENT OF JUSTICE AGAINST CHICAGO SO THAT BOTH THE JUSTICE AND THE TREASURY CASES COULD BE RESOLVED. PURSUANT TO REVENUE SHARING

REGULATIONS, WATT ALSO SENT A LETTER TO ILLINOIS GOVERNOR DAN WALKER REQUESTING THE GOVERNOR TO SECURE COMPLIANCE OF THE CITY.

IN MAKING THE ANNOUNCEMENT TODAY, WATT SAID, "IT IS THE POLICY OF THE OFFICE OF REVENUE SHARING TO SEEK EFFECTIVE AND RESPONSIVE VOLUNTARY COMPLIANCE WITH ALL OF THE PROVISIONS OF THE REVENUE SHARING ACT. ACCORDINGLY, THE OFFICE OF REVENUE SHARING ATTEMPTS TO NEGOTIATE AND RESOLVE COMPLIANCE PROBLEMS WITH GOVERNMENTS WHENEVER THAT CAN BE ACCOMPLISHED. HOWEVER, WHEN A GOVERNMENT FAILS OR REFUSES TO ENGAGE IN FURTHER NEGOTIATING SESSIONS, WE CAN CONCLUDE ONLY THAT VOLUNTARY COMPLIANCE SETTLEMENTS ARE NO LONGER POSSIBLE. THIS BEING THE CASE WITH THE CITY OF CHICAGO, I NOTIFIED MAYOR DALEY BY LETTER ON MAY 22 OF MY DECISION TO REFER THE CITIZEN'S COMPLAINT TO THE DEPARTMENT OF JUSTICE FOR APPROPRIATE CIVIL ACTION. I HAVE ALSO NOTIFIED GOVERNOR WALKER OF MY DECISION. I REGRET EXCEEDINGLY THAT THE REFUSAL ON THE PART OF THE CITY TO CONTINUE JOINT NEGOTIATIONS WITH THE OFFICE OF REVENUE SHARING AND THE DEPARTMENT OF JUSTICE MADE NECESSARY MY DECISION FOR REFERRAL OF THE MATTER TO THE DEPARTMENT OF JUSTICE."

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THE STATE AND LOCAL FISCAL ASSISTANCE ACT OF 1972 WHICH AUTHORIZES GENERAL REVENUE SHARING PROVIDES THAT "NO PERSON IN THE UNITED STATES SHALL ON THE GROUND OF RACE, COLOR, NATIONAL ORIGIN, OR SEX BE EXCLUDED FROM PARTICIPATION IN,BE DENIED THE BENEFITS OF, OR BE SUBJECTED TO DISCRIMINATION UNDER ANY PROGRAM OR ACTIVITY FUNDED IN WHOLE OR IN PART WITH (REVENUE SHARING) FUNDS...".

THROUGH GENERAL REVENUE SHARING, $30.2 BILLION IS BEING RETURNED TO MORE THAN 38,000 GENERAL-PURPOSE UNITS OF STATE AND LOCAL GOVERNMENT DURING A FIVE-YEAR PERIOD THAT ENDS WITH DECEMBER 1976.

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MEMO TO CORRESPONDENTS: May 28, 1974

The attached extract from the Federal Register is provided for your information.

ATTACHMENT

DEPARTMENT OF THE TREASURY

Office of the Secretary

LOAN TO GOVERNMENT OF BRAZIL GUARANTEED BY UNITED STATES

Public Notice of Invitation To Bid by Financial Institutions

I. *Invitation to bid—Classes of bidders.* The Department of the Treasury, acting for the Department of Defense, by this notice and under the terms and conditions hereof invites bids on the interest rate on a $5,000,000 loan to the Government of Brazil, hereinafter referred to as the borrower. The loan is described in Section V hereof. Bidding hereunder shall be subject to the "Regulations Governing the Sales of Treasury Bonds Through Competitive Bidding" (31 CFR Part 340) insofar as applicable.

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

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

II. *United States Government guaranty of loan.* The loan agreement provides that the obligation of the lender is to be conditioned upon the issuance by the United States of a guaranty of timely payment of 100 percent of the principal and 100 percent of the interest thereon by the borrower. The guaranty will further provide that the United States agrees that any claim which it may now or hereafter have against any beneficiary for any reason whatsoever shall not affect in any way the right of any other beneficiary to receive full and prompt payment of any amount otherwise due under this guaranty.

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

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

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

III. *Tax exemptions.* There will be no—

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

(b) Federal stamp tax; or

(c) Tax imposed by the borrower.

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

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

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

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

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

V. *Description of loan agreement.* The principal features of the loan are as follows:

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

(b) There will be a commitment period from the "date of execution" of the loan agreement to and including December 31,

1974 or such earlier date as the entire commitment of the lender shall have been utilized. For this purpose, the "date of execution" will be the date on which the loan agreement is signed on behalf of the borrower or the date on which the Department of Defense executes the guaranty agreement, whichever is later.

(c) The minimum drawdown under the loan agreement will be $500,000.

(d) The principal is to be repayable in four consecutive annual installments as follows: May 31, 1975—$500,000; May 31, 1976—$500,000; May 31, 1977—$2,000,000 and May 31, 1978—$2,000,000.

(e) Interest is payable on a fixed semi-annual basis beginning November 30, 1974 and thereafter on May 31 and November 30 of each year until the entire principal has been repaid.

VI. *Submission of bids—acceptance and opening of bids.* Each bid shall be submitted in triplicate on the letterhead of the bidder and shall specify a single annual rate of interest which shall apply on a 365-day basis only to the portion of the loan in use. The rate shall be expressed as a percent per annum not to exceed three decimals, for example, 5.125 percent. Each bidder may submit a bid for the entire amount of the loan or portions thereof in multiples of $2,500,000.

Bidders should fill in the blanks in the loan agreement (except for the date of the loan agreement itself) and should furnish three signed copies when submitting the bids. Most of the blanks are self-explanatory. At section 7.1., the guaranty fee will be 1/400th of the amount of the principal liability under the guaranty.

The bids should be enclosed in sealed envelopes and must be received in the Securities Department of the Federal Reserve Bank of New York, 33 Liberty Street, New York, New York 10045, not later than 11:00 a.m., e.d.t., on May 31, 1974.

Bids will be opened at the Federal Reserve Bank at 11:00 a.m., e.d.t., on May 31, 1974. In determining the successful bids, those specifying the lowest rate of interest will be accepted. Upon award of the bids, the Government of the United States will promptly secure the signature of the borrower to the loan agreement, as well as to necessary copies thereof, and will return one copy.

Copies of the loan agreement, of the exhibits and of the guaranty agreement may be obtained upon request from the Department of the Treasury, Bureau of the Public Debt, Room 200, Washington Building, Washington, D.C. 20226, or by telephoning (202) 964-2992 or (202) 964-8241.

Dated: May 20, 1974.

[SEAL] PAUL A. VOLCKER,
Under Secretary of the Treasury for Monetary Affairs.

[FR Doc.74-12070 Filed 5-24-74;8:45 am]

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Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR IMMEDIATE RELEASE May 29, 1974

STATEMENT BY SECRETARY OF THE TREASURY
WILLIAM E. SIMON

I am very pleased that the President today announced his intention to nominate Gerald L. Parsky to be Deputy Under Secretary of the Treasury. Upon his confirmation by the Senate and appointment to the position, he will be designated Assistant Secretary of the Treasury. Mr. Parsky will be responsible for trade, energy and financial resources policy coordination. He will serve as Executive Secretary of the East-West Trade Policy Committee, of which the Secretary of the Treasury is Chairman.

Gerald Parsky has worked closely with me as Executive Assistant to the Deputy Secretary since January of 1973 and in December 1973, he played a major role in the organization of the Federal Energy Office. As Executive Assistant to the Administrator, he assumed a great deal of responsibility for the management of the Office. His understanding of the energy issues as well as his assistance in the day-to-day operations of the Treasury Department have been invaluable to me. I am delighted that we will be able to use his talents in a wide variety of substantive areas.

(Biography attached)

WS-13

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BIOGRAPHY

GERALD L. PARSKY

Gerald L. Parsky was nominated as Deputy Under Secretary of the Treasury on May 29, 1974. Upon his confirmation by the Senate and appointment to the position, he will be designated Assistant Secretary of the Treasury.

He had been Executive Assistant to the Deputy Secretary of the Treasury, William E. Simon, since January of 1973. He also served as Mr. Simon's Executive Assistant in the Federal Energy Office.

Mr. Parsky came to the Treasury Department in 1971 as Special Assistant to Edwin S. Cohen, Assistant Secretary for Tax Policy and later Under Secretary of the Treasury. Prior to coming to Washington, he was an Associate in the New York law firm of Mudge, Rose, Guthrie and Alexander, specializing in corporate and securities law. He also served as an English Master at Suffield Academy, Suffield, Connecticut.

Mr. Parsky was born October 18, 1942 in West Hartford, Connecticut. He received his A.B. degree (cum laude) from Princeton University in 1964, and his J.D. degree, with honors, from the University of Virginia Law School in 1968.

He is married to the former Susan Haas (Pembroke College, B.A. 1967; Bank Street College, M.A. 1971). They have two children and reside in Washington, D.C.

May 29, 1974

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

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FOR RELEASE 6:30 P.M. May 29, 1974

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for $1.8 billion of 52-week Treasury bills to be dated June 4, 1974, and to mature June 3, 1975, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS: (Excepting 2 tenders totaling $1,150,000)

High	-	91.729	Equivalent annual rate 8.180%
Low	-	91.577	Equivalent annual rate 8.330%
Average	-	91.660	Equivalent annual rate 8.248% 1/

Tenders at the low price were allotted 95%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted
Boston	$ 14,405,000	$ 9,405,000
New York	2,078,740,000	1,450,630,000
Philadelphia	28,860,000	13,860,000
Cleveland	42,620,000	41,570,000
Richmond	14,565,000	11,565,000
Atlanta	7,895,000	7,895,000
Chicago	218,630,000	207,130,000
St. Louis	27,015,000	8,015,000
Minneapolis	955,000	955,000
Kansas City	8,715,000	6,715,000
Dallas	7,065,000	2,065,000
San Francisco	79,595,000	40,335,000
TOTALS	$2,529,060,000	$1,800,140,000 2/

1/ This is on a bank discount basis. The equivalent coupon issue yield is 8.93%.

2/ Includes $ 65,210,000 noncompetitive tenders accepted at the average price.

Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

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FOR RELEASE AT 10:00 A.M., EDT
THURSDAY, MAY 30, 1974

STATEMENT BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE
THE SENATE SUBCOMMITTEE ON APPROPRIATIONS
MAY 30, 1974 - 10:00 a.m.

Mr. Chairman and Members of the Committee, I am pleased to be here to present a summary of the fiscal 1975 budget requests for the operating appropriations of the Treasury Department and to discuss them with you. I would like to say at the outset that I appreciate the fact that you were willing to accommodate my schedule and allow me to testify at the end of the hearings. We in Treasury feel strongly that this subcommittee has been understanding and helpful to the Department in the past, and I look forward to a continuation of that relationship.

Before I begin on the budget material, I would like to present my associates in the Department: Mr. David R. Macdonald, Assistant Secretary for Enforcement, Tariff and Trade Affairs, and Operations; Mr. Warren F. Brecht, Assistant Secretary for Administration; and Mr. Edward J. Widmayer, the Departmental Budget Officer.

WS-12

The budget estimates that the Treasury bureaus have presented and discussed with this subcommittee reflect our efforts to achieve a proper balance between resources needed to fulfill our traditional operational responsibilities and resources needed to strengthen our role in handling the financial and economic duties of the Department.

Uncontrollable Increases

Our first priority consideration must always be costs associated with the increasing workload which is virtually uncontrollable. For example:

- Our revenue-producing bureaus IRS, Customs, and Alcohol, Tobacco and Firearms expect to collect gross receipts of $306 billion from income taxes, customs duties, and taxes on liquor and tobacco products;
- we will write and mail 647 million checks from our disbursing centers, 58 million more than this year;
- pay 767 million checks issued by all government agencies, 65 million more than in FY 74;
- issue, service and redeem 288 million bonds and securities, 3 million more than this year; and

. process and settle a greater number of public claims, the number of which increases proportionately with the increased numbers of bonds and checks issued.

The number of Customs formal and informal entries will rise to nearly 17 million; as travel increases, Customs will clear 269 million arriving persons; and IRS will process 122 million tax returns including 83 million individual returns. Nor can we avoid the growing demands on our bureaus for more coins and currency, and extension of our protective and enforcement responsibilities.

In addition to the high costs of coping with these increased workloads, we need additional resources for our high priority objectives--to improve our role in administering the tax laws and collecting taxes and duties, and to continue funding for two construction projects: the Federal Law Enforcement Training Center and the new Denver Mint.

Amounts Requested

Table 1 shows the appropriation request for fiscal year 1975. You will note from the table that our request for regular operating appropriations amounts to $2.3 billion, an increase of

$374.7 million over the authorized level for fiscal year 1974, after taking into consideration Congressional actions in the Second Supplemental Appropriations Act of 1974.

By looking at the table you can see a breakdown of this increase. Some 162.8 million dollars is needed to reimburse the General Services Administration for Treasury occupied space and related services. This payment is required by the Public Buildings Amendments Act of 1972 and represents the added cost in 1975 for space occupied as of June 30, 1974. The remaining increase of 211.9 million dollars relates to workload and expanded activities. Table 2 shows the man-year estimates that relate to the dollar requirements.

Since you have already examined bureau witnesses in detail, I will simply present a brief description of proposed major increases. First I will touch on the uncontrolled increases necessitated by the greater workload. Then I will touch on costs related to proposed expanded activities.

<u>Workload Costs</u>

<u>IRS</u>

To meet the workload demands that I mentioned earlier we will need program increases of $73.6 million. Some

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$46.9 million of this amount will be needed to keep up with the normal growth imposed on IRS. Mr. Chairman, last year we were required to process 2½ million more tax returns than the previous year; this year we expect another 1.7 million additional tax returns and a growing proportion of returns will have higher gross income and more schedules. As a result we expect more entries per return, as well as more taxpayer inquiries. At the same time, the levels of audit, collection, and fraud investigation must be maintained in proportion to this increased workload.

Government Financial Operations

Another $8.6 million will be needed just for issuing and paying checks; however, $4.6 million of this amount is for postage. We expect to write 58 million additional checks this year. Our normal increment of 19 million per year has been substantially increased by the new supplementary security income payments to the aged, blind and disabled which until recently were issued by the states. Federal assumption of these responsibilities under the Social Security Amendments Act of 1972 was effective January 1, 1974.

Customs

We are requesting $5.9 million for Customs workload particularly to process the steadily increasing volume of cargo importations estimated for 1975. Formal entries increased 13.1% in 1973. In 1974 the backlog of unliquidated entries as of March was 1.4 million and unappraised invoices over 30 days old was 1.1 million. Without sufficient manpower, backlog levels will continue to increase and importers will encounter unreasonable delays in knowing the final landed cost of their merchandise. A part of this workload increase is also the staffing needed at four of our preclearance locations--Nassau, Bermuda, Vancouver and Winnipeg--and to provide service at one new location--Calgary. New or improved inspectional facilities will be available at all of these locations.

Mint, Public Debt, Other

Other principal costs of workload include 5.2 million dollars for 1.7 billion additional coins, including 625 million Bicentennial coins; and $2.4 million for issuing and redeeming bonds and public debt securities. We are

asking for 4.6 million dollars to cover less dramatic workload increases for the remaining bureaus and offices--Secret Service, Bureau of Alcohol, Tobacco and Firearms, and the Office of the Secretary.

Now let me go over the cost of expanded activities and explain why it is necessary.

Strengthening and Quality Improvement

To strengthen and improve our role in tax administration, collection of taxes and duties, we are requesting an increase of 56.6 million dollars.

IRS

The major item of increase is 19.9 million dollars to expand audit coverage of Internal Revenue tax returns. The audit of tax returns is the heart of our tax compliance effort, by which we recover billions of dollars in taxes each year from unreported income. Audits should be made in sufficient numbers to recover owed but unreported taxes and to influence the entire taxpayer population toward even

higher levels of voluntary compliance. A widely felt but even handed audit presence is primarily responsible for assuring the accuracy of the self-assessment of tax liability. An increase of 1% in voluntary compliance results in an increase of at least $1.5 billion in additional reported tax receipts. The additional costs of tax enforcement is a very sound investment, since enhancing the revenue producing capacity of the Treasury contributes toward a balanced budget.

Besides auditing, the gathering of intelligence also plays an important part in promoting tax compliance by investigating taxpayers where tax fraud is suspected. When an investigation warrants, prosecution is recommended for criminal tax action. We are requesting an additional $1.6 million to better enable IRS to identify patterns and methods of tax evasion and develop cases to be turned over to the Department of Justice.

Another $9.7 million for IRS provides for the first phases of a major initiative to make complete use of documents supplied to IRS by partnerships, banks and other companies concerning profits, interest and dividends disbursed to taxpayers. We have developed plans for a full scale program to be operational in three years. For the first stage we

will compare all W-2 forms from employers with employee returns for completeness and accuracy. The following two years we will implement the final two stages. In fiscal year 1977, through the use of this new program we expect to identify 2.7 million erroneous reporting cases and 2.1 million non-filer cases. Additional tax assessments should amount to $480 million, and $195 million in overpayments should be returned to taxpayers.

We are requesting $6.3 million to improve the collection of Internal Revenue accounts receivable, to secure delinquent returns, and to reduce accumulated backlogs. Another $4.6 million will provide additional automatic data processing support for IRS programs such as the Employees' Plan Master File and the File on Tax Practitioners.

Customs

The U.S. Customs Service will need $5 million for improvement of enforcement programs and to enhance productivity. Of this amount, $2.5 million is to expand the Treasury Enforcement Communications System. These terminals are in operation at numerous points of entry. The system provides timely entry to the traveler and increases our enforcement capability. Customs will use the remaining $2.5 million for more detector

dogs, X-ray screening of mail, automated merchandise processing, telecommunications and training.

Improvements in Smaller Bureaus

Finally, $9.5 million of the total 56.6 million dollars for improvements is spread in less significant amounts in the smaller bureaus. As shown in the "Summary Highlights" of the justification material submitted to you, these increases cover equipment, space alterations, relocations and training in the Bureau of the Mint, Bureau of Alcohol, Tobacco and Firearms, the Bureau of the Public Debt, the Bureau of Accounts, and the Office of the Secretary.

Construction

Federal Law Enforcement Training Center

We have included $31.0 million for our current construction projects. Of this amount, $18.9 million is requested for the Federal Law Enforcement Training Center which brings the total funds appropriated for the Center to $45.9 million, the total of the amount authorized for the construction of the facility other than furniture and equipment. We recently

received a favorable decision from the Court of Appeals reaffirming a lower court decision stating that our environmental impact statement meets the requirements of the National Environmental Policy Act. We are now moving ahead with the actions necessary to begin the construction program and expect to have the Center in operation by fiscal 1978.

Denver Mint

Last year we indicated that an agreement had been concluded with the city of Denver for the acquisition of an appropriate site for the new Mint. However, a redevelopment plan in the area called for a relocation of the North-South rail line along the east side of our proposed site. This was not acceptable. Thus, together with GSA, we are in the process of selecting a new site in the Denver area and expect to do so this year. We are requesting 11.8 million dollars for design and site development work, and for the purchase of long-lead time equipment for the new Mint.

Customs

For the first time in a few years, we are asking for an increase of $250 thousand for the Customs construction of small border stations and residences in isolated locations

along our Canadian and Mexican borders. Because of budgetary constraints the program has been moving too slowly. This increase will provide a total of $500 thousand for five new projects in 1975.

Maintenance of Current Operating Levels

I have mentioned all of the major increases except a category over which we have little control--the cost of maintaining in fiscal year 1975 the programs now underway in fiscal year 1974. These estimates amount to $49.6 million and cover such items as:

- the full-year costs of jobs authorized for part of 1974;
- the extension to a full year of the costs of pay increases approved for classified employees in October 1973;
- compensation for an additional workday in 1975;
- within-grade promotions required by law;
- increases in costs of materials and services that have occurred to date; and
- leases of facilities and equipment incurred for part of this current year.

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Reorganization

Mr. Chairman, we have had a recent reorganization in the Fiscal Service, as Secretary Shultz described in his letter to you dated January 14. Treasury Department Orders Numbered 229 and 229-1 established a Bureau of Government Financial Operations and made other realignments of functions. This new bureau includes all the functions of the Bureau of Accounts and all the functions of the Treasurer of the United States except the immediate office of the Treasurer which has been transferred to the Office of the Secretary and the Securities Division which has been moved to the Bureau of the Public Debt.

The Treasurer will hereafter report directly to the Under Secretary for Monetary Affairs. Funds for the Treasurer position and the immediate staff will be transferred to the appropriation for the Office of the Secretary. With respect to the Securities Division of the former Treasurer's office, one of its functions was to issue, redeem, and service Treasury securities for the general public in the Washington, D.C. area. These and other

securities-handling functions are closely tied to the work and expertise of the Bureau of the Public Debt, accordingly, and consistent with our aim of getting better integration of all of our activities, we transferred the division to that bureau.

This is the first phase of a consolidation that should lead ultimately to one single appropriation for the Fiscal Service. This reorganization was not resolved in time to be reflected in the budget presented by the President, nor in the estimates under review. We have prepared and delivered backup papers to reflect the changes and shifts in the estimates under your review.

Conclusion

This completes my comments on the 1975 estimates. The tables are here for the record. I shall be glad to respond to any questions.

DEPARTMENT OF THE TREASURY

Annual Appropriations for Treasury Department for 1974
and Estimated Requirements for 1975
(in Millions of Dollars)

	1974 Proposed Authorized Level	1975 Budget Estimates	Increases or Decreases: To GSA P.L. 92-313	Increases or Decreases: Other	Increases or Decreases: Total
Regular Operating Appropriations:					
Office of the Secretary	19.6	24.5	.2	4.7	4.9
Federal Law Enforcement Training Center:					
Salaries and Expenses	2.3	3.2	.7	.2	.9
Construction	-	18.9	-	18.9	18.9
Bureau of Accounts:					
Salaries and Expenses	82.1	87.2	4.2	.9	5.1
Government Losses in Shipment	.8	.6	-	-.2	-.2
Bureau of Alcohol, Tobacco and Firearms	79.9	94.4	6.6	7.9	14.5
U. S. Customs Service	241.7	285.6	25.3	18.6	43.9
Bureau of the Mint:					
Salaries and Expenses	25.3	33.0	.3	7.4	7.7
Construction of Mint Facilities	-	11.8	-	11.8	11.8
Bureau of the Public Debt	80.9	88.4	1.8	5.7	7.5
Internal Revenue Service:					
Salaries and Expenses	36.6	41.5	.6	4.3	4.9
Accounts, Collection and Taxpayer Service	610.3	713.4	51.4	51.7	103.1
Compliance	664.4	803.3	67.1	71.8	138.9
Total, Internal Revenue Service	1,311.3	1,558.2	119.1	127.8	246.9
Federal Tax Lien Revolving Fund	-	.5	-	.5	.5
Office of the Treasurer, U. S.:					
Salaries and Expenses	13.2	15.5	1.0	1.3	2.3
U. S. Secret Service	69.6	79.5	3.6	6.3	9.9
TOTAL, Regular Operating Appropriations	1,926.6	2,301.3	162.8	211.9	374.7

NOTE: Amounts are rounded and do not add to total.

740045.3
May 7, 1974

DEPARTMENT OF THE TREASURY
Comparative Statement of Average Positions
Fiscal Years 1974 and 1975
(Direct Appropriations Only)

	1974 Authorized Level	1975 Estimate	Increase over 1974
Regular Annual Operating Appropriations:			
Office of the Secretary	797	903	106
Federal Law Enforcement Training Center	83	89	6
Bureau of Accounts	1,493	1,587	94
Bureau of Alcohol, Tobacco and Firearms	3,805	3,887	82
U. S. Customs Service	12,108	12,945	837
Bureau of the Mint	1,541	1,828	287
Bureau of the Public Debt	2,480	2,500	20
Internal Revenue Service:			
Salaries and Expenses	1,653	1,767	114
Accounts, Collection and Taxpayer Service	39,527	42,907	3,380
Compliance	34,717	37,613	2,896
Total, Internal Revenue Service	75,897	82,287	6,390
Office of the Treasurer, U. S.	928	1,030	102
U. S. Secret Service	2,852	3,048	196
TOTAL, Regular Annual Operating Appropriations	101,984	110,104	8,120

740044
January 24, 1974

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

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FOR IMMEDIATE RELEASE May 30, 1974

CORRESPONDENTS:

Attached is a request from Treasury Secretary William E. Simon to the President of the Senate asking Congressional action on legislation to withhold Federal income taxes on state lottery winnings. An identical request has been made to the Speaker of the House. The letter accompanying the draft bill explains the Treasury request.

Attachment

THE SECRETARY OF THE TREASURY
WASHINGTON

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MAY 29 1974

Dear Mr. President:

There is forwarded herewith a draft bill "To amend the Internal Revenue Code of 1954 with respect to the collection of income tax at source on amounts awarded in State-conducted lotteries." It would be appreciated if you would lay the proposed legislation before the Senate. This proposal is a part of the Treasury Department's legislative program for the 93rd Congress, and the Office of Management and Budget has advised that, from the standpoint of the Administration's program, there is no objection to the presentation of this proposal for the consideration of the Congress. This proposal is also being sent to the Speaker of the House of Representatives.

Presently, the States of Connecticut, Massachusetts, Maryland, Michigan, Pennsylvania, New Hampshire, New Jersey and New York are operating state-wide lotteries. Several other States are considering enactment of legislation authorizing lottery operations. In view of the popularity of this form of gambling, we believe that steps ought to be taken to facilitate the collection of taxes from the rapidly growing number of winners.

Section 6041 of the Internal Revenue Code requires information reporting on lottery winnings of $600 or more. Although an Internal Revenue Service study based upon a sampling of these information documents has indicated a relatively high rate of compliance in the reporting of lottery winnings (85 percent of the winners reported their gains on timely filed income tax returns), the residual noncompliance is sufficient to warrant concern. Moreover, we have reason to believe that compliance is much lower for winners of less than $600 with respect to whom information returns are not required under present law.

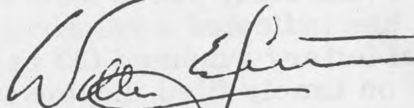
Apart from the compliance problem there is the payment problem that arises because many winners are unsophisticated in tax matters and thus fail to provide for timely payment of Federal income tax on their winnings. In many cases winners spend their lottery proceeds before the tax return filing date and consequently find that they are unable to pay the tax on their winnings when their taxes are due. Withholding at the source would alleviate payment problems for such taxpayers and would also reduce the incidence of delinquent account activity in the Service's Collection Division.

Accordingly, we have prepared a bill amending section 3402 of the Code which would require States conducting lotteries to withhold tax from amounts paid to individuals as prizes in connection with such lotteries.

For purposes of withholding and related administrative provisions, the bill treats payments of State lottery winnings as if they were payments of wages by an employer to an employee. However, withholding is applied at a flat rate of 20 percent on gross payments and is subject to a de minimis floor of $100. Under the bill the normal withholding exemptions are inapplicable to withholding. In lieu of a Form W-4 a winner is required to furnish to the payer a statement showing the name, address, and taxpayer identification number of each person entitled to share in the payment. The bill applies to payments made after December 31, 1974.

Compliance with these provisions will depend in large measure upon the cooperation of the States rather than upon sanctions for failure to comply. The States will have to file Forms W-2 with respect to payments and amounts withheld. However, the States are presently providing the Service with information returns, and we do not believe that this additional requirement will place an undue burden upon their lottery operations.

Sincerely yours,



William E. Simon
Secretary of Treasury

The Honorable
Gerald R. Ford
President of the Senate
Washington, D. C. 20510

Enclosure

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A BILL

To amend the Internal Revenue Code of 1954 with respect to the collection of income tax at source on amounts awarded in State-conducted lotteries.

1 Be it enacted by the Senate and House of Representatives of the
2 United States of America in Congress assembled, That the Internal
3 Revenue Code of 1954 is amended as follows:
4 (1) Section 3402 of the Internal Revenue Code of 1954 (relating
5 to income tax collected at source) is amended by inserting immediately
6 after subsection (p) thereof the following new subsection:
7 "(q) Extension of Withholding to Amounts Awarded in State-
8 Conducted Lotteries. --For purposes of this chapter (and so much
9 of subtitle F as relates to this chapter), the payment to an individual
10 of any amount (including the cash value of a payment in any medium
11 other than cash) by a State (as defined in section 7701 (a)(10)), or by
12 an agency or instrumentality of a State acting under authority of
13 State law, as a prize or award in a sweepstakes, wagering pool, or
14 lottery conducted by such State, agency, or instrumentality,
15 shall be treated as if it were a payment of wages by an employer
16 to an employee. However, in such a case the amount of the tax
17 required to be deducted and withheld with respect to such payment
18 shall be 20 percent of the amount paid as a prize or award; and, in
19 lieu of the exemption certificate required by subsection (f) (2), each
20 such individual shall furnish the maker of such payment with a
21 statement, made under the penalties of perjury, containing the name,

22 address, and taxpayer identification number of each person

23 entitled to any portion of such payment. This subsection

24 shall not apply in respect of prizes or awards of less than

25 $100."

26 (2) The amendment made by this section shall apply

27 to payments made after December 31, 1974.

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

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FOR RELEASE 6:30 P.M. May 30, 1974

RESULTS OF OFFERING OF $800 MILLION STRIP OF WEEKLY BILLS

Tenders for additional amounts of eight series of Treasury bills to an aggregate amount of $800,000,000, or thereabouts, to be issued June 5, 1974, were opened at the Federal Reserve Banks today. The amount of accepted tenders will be equally divided among the eight issues of outstanding Treasury bills maturing September 19, September 26, October 3, October 10, October 17, October 24, October 31, and November 7, 1974. The details of the offering are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	Price	Approximate equivalent annual rate based on 130.5 days (average number of days to maturity)
High	97.018	8.226%
Low	96.981	8.328%
Average	96.997	8.284% 1/

Tenders at the low price were allotted 69%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied for	Accepted
Boston	$ 19,200,000	$ ---
New York	1,964,080,000	541,600,000
Philadelphia	32,160,000	160,000
Cleveland	16,160,000	160,000
Richmond	200,000	200,000
Atlanta	---	---
Chicago	333,720,000	252,720,000
St. Louis	15,280,000	2,840,000
Minneapolis	10,000,000	---
Kansas City	8,000,000	2,400,000
Dallas	12,000,000	---
San Francisco	46,640,000	80,000
TOTALS	$2,457,440,000	$800,160,000 2/

1/ This is on a bank discount basis. The equivalent coupon issue yield is 8.66%.

2/ Includes $3,480,000 noncompetitive tenders accepted at the average price.

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

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For release upon delivery

STATEMENT OF THE HONORABLE JOHN M. HENNESSY
ASSISTANT SECRETARY OF THE TREASURY
FOR INTERNATIONAL AFFAIRS
BEFORE THE FOREIGN OPERATIONS SUBCOMMITTEE
OF THE SENATE APPROPRIATIONS COMMITTEE
MAY 28, 1974, at 10:00 A.M. EDT

I am pleased to be here today to present the Administration's FY 1975 appropriations request totaling $1,006 million for the international development lending institutions. I strongly urge that this Committee and the Congress act favorably and appropriate the amounts requested.

Before turning to the specifics of our appropriation requests for FY 1975, I would like to respond to the view that recent rapid changes in the world economy -- and the energy crisis in particular -- argue against our continued support of the international lending institutions. I believe the opposite is true, and that the arguments for continued U.S. leadership in this area are strengthened by recent events.

Doubts have been raised about the level of U.S. participation in the international development lending institutions in view of: 1) the overwhelming problem the developing countries face in paying for oil; 2) the possibility

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that money would go through borrowers' hands into oil-producers' pockets; and, 3) the possibility that the oil exporters will not assume responsibility for a fair share in the aid burden. These concerns are serious, but I hope to demonstrate that they are not well-founded.

First, it is true that the problems confronting many developing countries are of serious magnitude -- the World Bank estimates that the external capital requirements of the LDCs will increase by $10-12 billion per year from now until 1980, as a result of recent price increases of oil, food, and fertilizer. This added need for capital in the developing countries increases the urgency of assistance flows from industrialized countries. A reduction of our aid flows would only aggravate the precarious position now facing many poor nations. It would also undermine our case that newly rich nations now have to join in the international effort by contributing their fair share of international assistance.

Second, the international development lending institutions cannot be used for paying the increased oil bill of the hard-hit developing countries. The institutions finance specific development projects, and do not support imports of basic commodities such as oil.

Third, there is already concrete evidence that the oil-producing countries will recognize that their new affluence carries with it important responsibilities to poor countries.

Iran has already made resources available for lending to developing countries. Venezuela is in the early stages of negotiating a trust fund under the Inter-American Development Bank of reportedly up to $500 million for financing development in poor Latin American countries, and has also pledged $30 million of new resources to the Caribbean Development Bank. Abu Dhabi, Oman, Kuwait, Libya, Saudi Arabia, and Bahrain are participating in the World Bank bond purchase programs. Several of the OPEC countries have pledged $3.3 billion toward the special new IMF facility aimed at providing assistance to countries with oil-induced balance of payments problems. An Arab Fund for African Development is under discussion, and additional resources are to be made available to Islamic countries.

There are positive overall economic and foreign policy reasons as well for us to move promptly on those appropriations which are related to the recently changed world economic situation. First and foremost, the United States cannot legitimately call for an international solution to such problems as energy, food supply, population, trade and monetary reform, if we shun our own responsibilities in the areas of international economic development. These problems are all intimately linked. To eliminate, or reduce, our contributions to the international development lending institutions would represent an inward turning on our part which could be used as a justification of similar measures by other countries, undermining the very cooperative system we are trying to strengthen. Of course, the work and effectiveness of these

institutions in helping poor nations help themselves is important in its own right.

With this backdrop in mind, I would now like to discuss briefly the proposed appropriations. The total request of $1,006 million consists of a $500 million contribution to the Fund for Special Operations (FSO) of the Inter-American Development Bank (IDB); $320 million for the International Development Association (IDA); $50 million for the Consolidated Special Funds of the Asian Development Bank (ADB); and also two requests for which authorizing legislation is pending. The first of these is $120,635,000 for an increase in our Ordinary Capital contribution to the ADB; and the second is $15 million for the African Development Fund (AFDF).

While the amounts are large, the economic cost to the United States of supporting these institutions is much smaller than the aggregate figures indicate. Eighty percent, or $97 million of the $121 million requested for ADB Ordinary Capital, is in the form of a guarantee; thus only $24 million would require a budget outlay. In addition, the budgetary impact that would result from all of these appropriations would be spread over several years and much of our contribution to these institutions returns to us in the form of payment for the sale of goods and services.

According to a recent study prepared by the Congressional Research Service of the Library of Congress for the House Committee on Foreign Affairs, the aggregate balance of payments effect of U.S. participation in these institutions has been overwhelmingly favorable to the U.S. I would like to submit for the record in Annex I two very instructive tables developed for this report by the Congressional Research Service and highlight their conclusion: the cumulative balance of payments result of U.S. involvement in the World Bank Group (including IDA), the Asian Development Bank and the Inter-American Development Bank (including FSO) to date has been a net surplus of $2.1 billion for the United States. Of course, as disbursements on loans are drawn down over time there could be some decline in this figure -- but the point is that in balance of payments terms we can well afford the program.

In terms of our Gross National Product and our budget, these contributions represent less than one-tenth of one percent and only one-third of one percent respectively. The cost of maintaining an appropriate level of international responsibility in this area is a most reasonable one and the burden of development assistance falling on the U.S. has been shifting to other countries in keeping with this Committee's concern. This shift is already apparent in the present ADB and AFDB appropriations requests and will be

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incorporated in future IDA and IDB replenishment requests.

INTER-AMERICAN DEVELOPMENT BANK

For the Inter-American Bank the Administration is requesting $500 million for the Fund for Special Operations (FSO). This amount would represent the final installment of the U.S. contribution, totaling $1 billion, authorized by the Congress in March, 1972, originally negotiated by the Executive Branch in April 1970.

The Fund for Special Operations, as you know, constitutes an important part of the Inter-American Bank's structure. Its resources, which come entirely from member country contributions, are used to support projects in the poorest Latin American countries.

Only about $100 million in convertible currencies will remain uncommitted in the FSO at the end of the present calendar year. The proposed $500 million U.S. contribution now requested would allow only for maintaining FSO lending in dollars for 1975 at this year's projected level of $400 million, with some provision for 1976. This would be a bare minimum given the loan demand from the relatively poor Latin American countries which borrow the bulk of FSO funds.

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Let me also address the question of the quality of the operations of the IDB, a matter that has been of major concern to this Committee. Specific steps have been taken since last year to improve its work and to strengthen its organization. Committee members already know about the Group of Controllers and the good work being done on external evaluation and review of projects. The U.S. member of the group is now Mr. Edward Tennant, who was formerly Auditor General for Foreign Assistance of the Agency for International Development. Thus far, the Group has completed 11 reports -- the most recent ones on Planning and Programming, Global Loans to Financial Institutions, and on a regional integration organization. Recommendations contained in these reports are in the process of being implemented.

In connection with the concern of the Committee and Congress about the follow-up on IDB loan projects, we can report the initiation by the Executive Branch of an active program of inspection trips to the field covering all the institutions. These have yielded concrete evidence that IDB loans are contributing successfully to economic and social development in Latin America. For example, following the last IDB annual meeting in Santiago, Chile, Members of Congress and other members of the U.S. delegation had the

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opportunity to see how IDB-financed projects contribute to economic and social development in Latin America.

In concluding my statement on the IDB, I want to emphasize that our request for appropriation of $500 million takes on special meaning in the light of the closer ties we are attempting to forge with the countries of Latin America, based on a concept of a community of interest. One of the subjects of greatest concern to the Latin American Foreign Ministers at two recent conferences -- one in February in Mexico City, the other last month in Washington -- was the general decline in U.S. contributions to Inter-American institutions and to the IDB in particular. Secretary Kissinger pledged on those occasions that the Executive Branch would do its utmost to maintain our aid flows to Latin America. In turn, the newly oil rich nations of the region were asked to join in helping to finance development.

INTERNATIONAL DEVELOPMENT ASSOCIATION

The $320 million we are seeking today for the International Development Association (IDA) represents the third and final installment of our $960 million contribution to the IDA Third Replenishment.

As the members of the Committee are aware, IDA is an integral part of the World Bank, employing the same expert staff, and following the same rigorous standards of project

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appraisal and supervision. IDA funds go to the poorest of the developing countries, those with per capita incomes of less than $375 per year. These are countries which, because of their poverty, have extremely limited capacities for financing investment from their own savings. Similarly, their opportunities for obtaining external capital from sources other than IDA are limited, if not non-existent. IDA is thus crucial to the hopes of their citizens for better and more fruitful lives.

Major sectors in IDA lending have been agriculture (28 percent), transportation (25 percent), and electric power (8 percent). Recently, new fields such as education and family planning have received increased emphasis, with the growing realization that improvement in human skills and the curbing of excessive population growth can be as important to economic development, if not more important, than the accumulation of physical capital.

I would also like to call your attention to the fact that in its Report of May 11, 1972, on supplemental appropriations, the Conference Committee agreed that there was no intention of denying each of the three annual installments of $320 million in the three fiscal years beginning July 1, 1972.

I again urge the Committee to act, as you did last year, in the spirit of that joint explanatory statement, particularly in view of the fact that our payments are one

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year behind those of other IDA donors.

ASIAN DEVELOPMENT BANK

For the Special Funds of the Asian Development Bank (ADB) the Administration is now requesting $50 million. This $50 million is part of a $100 million authorized contribution to the Special Funds of the ADB, of which the first $50 million was appropriated last year.

Since authorization of the U.S. contribution of $100 million in 1972, a multilateral effort has been made to establish an Asian Development Fund (ADF). The $100 million already authorized would be counted towards the U.S. contribution to the Fund and would, by agreement with other donors, be 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.

Last year when the Congress decided to reduce the Administration's request for the first $100 million to $50 million, it recognized the beneficial burden-sharing aspects of the new ADF proposal; and the Joint House Senate Conferees Report stated that the conference managers had no intention of denying a fiscal year 1975 request for the balance of $50 million when presented by the Administration. The conference managers supported the favorable burden-sharing arrangements embodied in the proposal of which the $100 million was a part.

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Our contribution of $50 million appropriated last year, combined with the request now before you will mobilize $250 million from other donors in their first stage contributions to the ADF. While there will be no commitment to the ADB concerning future U.S. contributions, we plan next year to request a third $50 million contribution. This would make a total U.S. contribution of $150 million, and taken with the $375 million contribution by other donors, would complete the ADF's initial resource mobilization plan, providing a total of $525 million in concessional resources to the ADF. This is in addition to the $330 million in ADB Special Funds already contributed by other donors -- excluding the U.S. To the extent that such contributions were made since January 1, 1973, contributors are entitled to credit them against their ADF pledges.

The FY 1975 budget also includes an appropriation request for an increase in the U.S. share of capital stock in the ADB. This was also included in our request last year to this Committee, but the Congress did not take action on the authorizing legislation. It is now anticipated that action on the ADB Ordinary Capital authorization will take place shortly in the Senate and subsequently in the House. The total new U.S. Ordinary Capital participation would be

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$362 milion, of which 80 percent (about $290 million) would be callable guarantee capital and 20 percent, or about $72 million, would be paid-in. Budgetary expenditures result only from the paid-in capital portion as the guarantee capital serves to back ADB borrowings in private capital markets, and would only be called in the most unlikely event that the Bank experienced sizeable loan defaults.

We strongly support this proposed U.S. participation in the Ordinary Capital increase, which became effective in November 1972 and has been subscribed to uniformly by other donor nations. As a result of our not subscribing, our present voting power has dropped from 18 percent to 8 percent, putting us below that of Japan, India, and Australia. Participation in this capital increase will enable the U.S. to regain a level of voting strength which will reflect U.S. interests in the Bank and the Asian area.

Finally, Mr. Chairman, I would like to comment on the issue of procurement and the U.S. share in the Asian Bank. Both you and we have been greatly concerned about increasing the percentage of contracts resulting from ADB-financed projects awarded to U.S. business firms. In this respect, Mr. Chairman, our expectations were largely realized in 1973. U.S. procurement from the Bank's Ordinary Capital lending operations more than doubled last year from 8 percent to 17 percent -- a marked improvement, which is largely

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attributable to the exchange rate realignments effected since 1971. Nevertheless, in order to improve the U.S. position further, we will intensify our contacts with U.S. firms, and improve the flow and distribution of information to private U.S. firms on upcoming ADB procurement opportunities.

AFRICAN DEVELOPMENT BANK

This year's appropriation proposal contains our first request for a U.S. contribution to the soft loan facility -- known as the African Development Fund (AFDF) -- of the African Development Bank (AFDB). Since this is the first time that the Committee has been formally asked to consider U.S. participation in this Fund, I have attached a brief outline of the history of the AFDB and the AFDF. (See Annex II.)

The African countries worked hard to create their own regional bank and have contributed their own resources in an admirable demonstration of self-help.

The AFDF will contribute significantly to African development by specializing in small, high priority projects directed at the very poor of the region, and by promoting the regional integration so essential to Africa's development. While the amount requested is small, and is not contemplated to increase significantly in the next few years -- for

example we are not planning any requests in addition to this $15 million for next year -- it is important that the U.S. show its concern for, and interest in, the development of the countries of Africa thorugh the concrete step of participation in the AFDF. All other major industrial nations except France have joined the Fund, and both Canada and Japan have already pledged contributions of $16.5 million each -- more than our request before you.

The cost to the United States of participating in the Fund is small and entirely reasonable. We would be only one of 16 nations to contribute. The total contribution from these 16 donors and from the AFDB itself would be about $115 million, over $85 million of which is already subscribed. Our proposed contribution of $15 million is only 13 percent of this total. Contributions by the donor countries are being made over a three-year period. The expected U.S. budget outlay would be only $1 million in fiscal year 1975.

At the same time, I wish to confirm to this Committee that the U.S. has undertaken no commitment to participate in the Fund, although the U.S. participated actively in drafting the Articles of Agreement of the AFDF in order to be assured that it would be put on an effective and soundly managed basis.

Legislation to authorize U.S. participation in the AFDF with a contribution of $15 million has been introduced by Senator Humphrey in the Senate. It is our hope that once Congress has completed its consideration of the pending authorizing legislation for the International Development Association it will then turn its attention to the request for the AFDF.

In sum, Mr. Chairman, we feel that these appropriation requests deserve your approval and support. They are of great importance to our overall international economic objectives. The institutions involved are run on a sound basis and provide development assistance competently. This assistance is of direct and lasting benefit to the developing countries, and because of our worldwide interests, to the United States itself. The current international economic situation lends added importance to this request. To withdraw our support from these institutions now would be shortsighed and particularly damaging to our broader interests.

It is the responsibility of the Congress to weigh this request against competing priorities. The thrust and weight of my testimony has been directed towards convincing you that this request deserves a very high priority. Its benefits are manifest, important, and affordable. I firmly believe it should receive your support.

Thank you.

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TABLE 1—BALANCE OF PAYMENTS BETWEEN U.S. AND BANKS, CUMULATIVE (INCEPTION TO 1973)[1]

	Millions
U.S. payments to banks:	
World Bank Group subscriptions	$1,460.2
Inter-American Bank subscriptions	964.8
Asian Bank subscriptions	55.3
World Bank bond sales in United States	2,492.0
Inter-American Bank bond sales in United States	423.2
Asian Bank bond sales in United States	52.0
WBG earnings on investments in United States	1,281.0
IDB earnings on investments in United States	221.3
ADB earnings on investments in United States	39.1
Total U.S. payments to banks	6,991.9
Bank payments to the United States:	Millions
World Bank Group U.S. procurement	$4,391.0
Inter-American Bank U.S. procurement	733.0
Asian Bank U.S. procurement	12.5
WBG interest to U.S. bondholders	1,308.0
IDB interest to U.S. bondholders	149.7
ADB interest to U.S. bondholders	7.0
WBG administrative expenses in United States	617.9
IDB administrative expenses in United States	184.3
ADB administrative expenses in United States	16.5
WBG net long-term investments in United States	2,094.0
IDB net long-term investments in United States	68.5
ADB net long-term investments in United States	82.0
Bank payments to the United States	9,664.4
Net U.S. payments surplus	2,673.5

[1] Data for World Bank Group by fiscal years (July 1–June 30); IDB and ADB data by calendar years; tables exclude data on IFC and SPTF, to which the United States has contributed $35,000,000 and $525,000,000, respectively, but for which other data are unavailable. The full data for this table can be found in apps. I-1 through I-6.

TABLE 2—ANNUAL BALANCE-OF-PAYMENTS EFFECTS OF THE BANKS, AGGREGATE 1965–72[1]

[Dollars in millions]

Year	Amount	Year	Amount
1965	225	1969	342
1966	593	1970	453
1967	361	1971	−228
1968	87	1972[2]	471

[1] Excludes FSO data, for which data are unavailable on an annual basis. Except as discussed later in the text, FSO contributors are usually tied to procurement in the donor country. Years are by fiscal year for World Bank Group and calendar year for ADB and IDB.
[2] Excludes ADB data, which are unavailable for 1972. The 1971 ADB figure was —$34.

Source: Foreign Affairs Division, Congressional Research Service, Library of Congress; The United States and the Multilateral Development Banks; prepared for the Committee on Foreign Affairs; March 1974, pp. 148-9.

PROSPECTIVE UNITED STATES
PARTICIPATION IN THE AFRICAN DEVELOPMENT FUND

The African Development Bank was established in 1964, when many of its member countries had just gained independence, and now has a membership of 39 African countries. The capital structure of the Bank is composed of both paid-in and callable capital just as in the other international financial institutions. As of the end of 1973, this capital amounted to $385 million, of which $130 million is paid in and the remainder callable. As of the same date, the Bank had authorized $130 million in loans for 60 individual projects in 31 member countries. All projects have been financed at near market terms, i.e., 6 - 8-1/2 percent interest and maturities of 10 to 20 years.

It has been recognized for some time that many African nations are in acute need of concessional lending resources from the industrialized nations. It was to meet this need and to encourage the commitment of resources from outside the African region that the African Development Fund was established. In 1966 the Bank started discussions with the United States and other developed countries on the possibility of establishing a concessional loan fund in association with the Bank. The donor nations, including the United States, agreed upon principles for the establishment of the Fund at a Development Assistance Committee meeting of the OECD in March, 1971. After approval by the Board of Governors of the Bank, the African Development Fund was established on June 30, 1973.

The United States participated actively in the drafting of the Articles of the Fund. We wanted to be assured that the Fund would be put on a sound basis and would be effectively managed. We believe we succeeded fully in this objective and that major efforts were made to meet well-known Congressional concerns. For example, the Articles of the Fund, alone among the development institutions, contain a provision requiring a comprehensive and continuing review of completed projects by an audit committee reporting to the Board of Directors.

The Fund is legally separate from the Bank and managed by its own Board of Directors, consisting of six representatives of the donor countries and six Bank Directors, with each group holding 50 percent of the total voting power, and a 75% weighted vote for all operational decisions. As in the case of the concessional funds of the other international development lending institutions, the Fund uses the Bank's staff and draws upon its experience and expertise.

By the end of last year, thirteen other industrial nations had ratified the Fund statutes and pledged a total of more than $90 million. In addition, the Bank has committed to the Fund approximately $6 million from its own earnings. Although only in existence a little over eight months, the Fund has already made three loans totalling about $5 million for irrigation and assistance programs in the countries of the Sahel, as a result of an initial decision to give priority in its lending to this drought stricken disaster area.

A soft loan window for Africa has been urgently needed. Africa is the least developed continent. Its peoples are the poorest in the world. In per capita GNP terms, 43 of its countries have incomes of less than $360 and ten of these have incomes of less than $100. Yet, the loans from the Bank's ordinary capital resources have had to be on near-commercial terms. This is a serious limitation since many of the pressing development projects in Africa cannot be financed on conventional terms. Many of these projects are not directly profitable in the short run but they are indispensable for economic and social progress. Their financing must be on more lenient terms and conditions than those offered by the Bank's ordinary capital resources. The Fund can provide the resources on the terms required. It can also promote the sort of regional economic integration and joint development projects which the U.S. has always supported as necessary in countries with small markets.

The Fund can also serve as a magnet to attract capital from the oil-rich countries of the region. We already have indications of the willingness of oil-exporting nations of Africa to increase their contributions for the economic development of the continent. Libya, Nigeria, and Algeria will increase their participation in the African Development Bank's Ordinary Capital. Libya has also indicated its willingness to give the Bank access to a special pool of $100 million in development funds it has created.

The U.S. stands to benefit substantially from a modest role in the Fund. Our relations with Africa have assumed greater significance as the developed world's need for industrial minerals and fuels has drawn U.S. investors and traders to Africa. A growing consciousness of the limits on world resources has highlighted the economic potential of the area. To illustrate, the continent possesses 42% of the cobalt, 34% of the bauxite, 17% of the copper, and about 23% of the world's known reserves of uranium ore. Africa will necessarily be an increasingly important source of vital U.S. imports. Thus, our enlightened self-interest dictates that we build sound economic relations with the nations of Africa. Participation in and support of the Fund is one means of furthering this goal. Participation in the Fund would also be perceived by the African nations as an indication of our interest in their growth and prosperity.

Furthermore, under the Articles of the Fund, procurement of goods and services for projects financed by the Fund may only be from member nations. Thus, until the United States joins the Fund we will be precluded from this potentially substantial source of export earnings, particularly if the Fund should be expanded by the contributions of the other countries.

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FOR RELEASE ON DELIVERY

REMARKS OF DR. H. I. LIEBLING
DEPUTY DIRECTOR, OFFICE OF FINANCIAL ANALYSIS
OFFICE OF THE SECRETARY, U.S. TREASURY DEPARTMENT
AT THE ECONOMIC OUTLOOK DINNER SPONSORED BY THE
AMERICAN STATISTICAL ASSOCIATION PHILADELPHIA CHAPTER
PHILADELPHIA, PENNSYLVANIA
THURSDAY, MAY 30, 1974, AT 7:30 P.M.

This audience might attribute to me an unshakeable and perennial optimism. Two years ago in May, I said to you, amidst some scepticism, that the GNP gain in 1972 would equal or exceed $100 billion and that it would provide a momentum into 1973 that would raise production, employment, and incomes. Last May, I forecasted a "soft landing", which I quantified as a real GNP growth rate of 2½% or more for the latter part of 1973 and going into 1974. That would have been a happy outcome -- but that prospect was dashed by the boycott of the oil-producing countries. Had you asked me for an interim report last October or November, I would have delivered a piece I entitled, "Turbulence on the Soft Landing," in which I marked down the real growth rate and marked up the inflation rate for 1974. And that forecast, too, was more optimistic than those which predicted a 7% to 8%, or more, unemployment rate.

Now, I don't think that I am congenitally bullish because on occasion, my forecasts have been lower than some others, official or otherwise. But, as a member of the Government forecasting team, which is known as the Troika -- and is comprised of the Treasury, CEA, and OMB -- I was

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more impressed by the vitality of the economy and its ability to grow, than by the stream of forecasts made during 1962-1969 which seemed to proceed on the assumption that if the economy was not going to stagnate this quarter, it might the next. During 1962-1969, I witnessed an underestimation in the GNP forecasts against actuals which averaged over 1%. At current levels, this would represent an underestimate of $15 billion in GNP; moreover, this represented a shortfall mostly in price but also real GNP growth. When I was bullish in those days, I was charged by many now located on Massachusetts Avenue as being incurably "inflationist". This was a label I grew to like in view of subsequent developments. In 1970 and 1971, the Government forecasts tended to be higher than the "actuals". That is where I would make my claim as not always being bullish.

But why I would be optimistic about 1974 and 1975 is the relevant question of this evening. (Incidentally, that again places me in contrast with some on Massachusetts Avenue who are asking for a tax cut.) May I say at once that I am an optimistic only by the new standards regarding tolerable rates of real and inflation growth.

Before assessing 1974, and beyond, however, I would like to give some added dimensions to where the economy stands at this time. First of all, I would deny that to this point we have been in a recession, however that might be defined by the National Bureau of Economic Research, or by reasonable criteria of others. Chase Econometrics, Wharton EFA, and some others to the contrary, I would differ from a view that low or negative real GNP growth is a sound basis for concluding that we are, or have been, in a standard "recession." Negative real growth, which results from supply constraints in the economy represents a different condition -- and requires different economic policies -- than when it results from demand insufficiency. Now, these supply constraints have developed on a scale unprecedented in the postwar period. Supplies generally are short across the board almost in all basic materials, and in many types of finished goods.

I have attached a table to this talk, which illustrates the difference in the behavior of many types of pressure variables in the economy. Assuming that November 1973 was a cyclical peak of some sort, the performance of these variables is very different than in the two preceding recessions.

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Certainly, the employment and unemployment trends since last November appear very different. In April, five months after the so-called November 1973 peak, private nonfarm employment was unchanged, as jobs in non-energy related industries increased more than the declines in energy-related sectors, such as gas, service stations, airlines, motor vehicles, etc. Industrial production since last November appears to have declined as in the two former recessions, but that is due to autos, at least partly energy-related, and energy itself. In addition, supply factors have generated output reductions in steel and other basic industries. For example, steel output is down since November, due to a metallurgical coal shortage. As a result, steel companies are turning down orders. That surely ought to be considered differently than the steel output declines in former recessions.

But, beyond the measures of current economic activity are the trends in new and unfilled orders, the strength in capital goods spending (as indicated by spending anticipation surveys and capital appropriation), and the long delivery times in obtaining materials, etc. The differences from the past two recessions are expressing the fact that in many areas, the production growth possibilities of the economy have diminished. Aggregate demand has remained strong, as the demand for investment has offset by far the sluggishness in some of consumer purchasing.

How do these figures of pressure on the economy reconcile with the 6.3% annual rate decline in real GNP just reported for the first quarter of the year? The fact is that there have been slippages in some sectors of the economy. So far, they have been mainly oil or energy-related, although a case could be made that the automobile and the housing sectors were only partly energy-related and that demand had softened some in these two areas even before the energy problem. But even so, these have been far outweighed by ongoing positive growth in the main body of the economy.

If the real GNP figures for the first quarter are disentangled, they show the following:

- Taking account only of the most obvious supply or energy-related constraints in the economy -- the automobile sector and spending on gas and oil -- real GNP growth in the first quarter was a positive 1%, not a negative 6.3%, annual rate.

- Total real consumer spending has been declining. But, here again, if energy-related spending on cars and on gas and oil are netted out, real consumer spending in the first quarter of this year did not <u>decline</u>; it <u>rose</u> at an annual rate of 3.5%.

- Sluggish real spending by business on fixed investment in the first quarter also has been noted. But, here too, an annual rate of <u>decline</u> of 3% is converted into an <u>increase</u> of 7%, if the energy-affected purchases on autos and trucks are netted out. (In terms of current dollars, the spending advances were 7% and 16%, respectively.)

- The capacity utilization rate in the materials-producing industry, as measured by the Federal Reserve, appears to have declined in the first quarter. But steel and petroleum refining are both part of this statistic, and they have been troubled by inadequate raw materials supply. An adjustment for these two industries would show no change in the very high operating rate for basic materials in the first quarter of 1974.

Looking beyond the first quarter, the early returns already are indicating a bottoming out from negative to at least zero real growth. The most recent figures would support that scenario. In April, industrial production rose 0.4% and not only because of increased automobile output as some have said. Employment scored a sizeable April gain. Retail sales increased 1.4% in April, while May also appears headed for an increase.

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There is a strong chance of a small increase in real GNP in the second quarter. After that, sizeable positive growth in the second half of the year and going into 1975 is my forecast.

To sum up, a strong economic recovery appears on the way. Its sources of power will be the same as those which have continued to sustain the underlying vigor of the economy throughout the energy situation. They are the following:

- The U.S. is in the midst of a capital goods boom, whose end is not in sight. It will take several years before the deficiencies in our capacity to produce can be met in the energy and basic materials and even finished goods sectors. On top of that, capital expenditures will be required to meet the new environmental standards.

- Inventories are low in many industries and added production will be needed to bring them into better balance.

- Export markets will continue to grow.

- Housing activity will expand, though not as much as had been forecast earlier.

Perhaps most would agree with the general outline of some <u>positive</u> real growth in the months ahead, if not with very large increases. But I would argue that if growth rates are very low, the supply constrained economy again would represent the principal determinant of low growth -- barring an unlikely and unexpected turn to a very harsh monetary policy that is strong enough to weaken aggregate demand substantially. The deficiencies in supply have been building for a long time and they will not quickly vanish.

That is one reason why the process of disinflation will be slow under the best of circumstances regarding prudent fiscal and monetary policy. The halving of inflation rate during the course of 1974, which many expected earlier, appears too optimistic a prospect at this juncture. Some reduction from the 10.2% rate of increase in consumer prices

over the past twelve months might be expected because of the special factors affecting food and energy items. But, aside from food and energy prices, which will benefit from larger supplies, the "basic" rate of consumer price inflation over the past year was 6½%. That rate appears high by U.S. standards. But, it still might represent the low side of possible price forecasts, in my personal view. It might be attainable by optimal policy and restraint in wage and price decisions in the private sector. The difficulty is that many of the cost factors entering into consumer prices have not yet worked their way into the price structure from the manufacturers' and wholesalers' levels. Even moderate absorption of the 20% or so annual rate advance over the past three months in wholesale industrial prices suggests continued strong pressure on prices of retail goods. The price "bubble" from the termination of price controls might extend this period of pressure both on goods and services.

Furthermore, expectancy of wage pressures as moderate as in 1973 might not be realized.

I do not want to place my trust entirely on a complicated econometric analysis of the price structure. But, the results of that would indicate that a 7½% to 8% rise in consumer prices by the end of 1974 is a likely prospect. Policy measures and restraint, as indicated above, might change that result.

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ECONOMIC CHANGES IN RECESSIONS
(Percent Changes)

	November 1973 to April 1974	November 1969 to April 1970	May 1960 to October 1960
Private Nonagricultural Payroll Employment (1)	0	-1.3	-1.0
Energy Related	-1.3	-1.9	-1.9
All Others	0.8	-1.3	0.3
Unemployment Rate	0.3 (2)	1.1 (2)	1.0 (2)
Industrial Production	-2.2	-2.4	-3.0
Industrial Production, less Auto and Energy	-1.3	-2.9	-3.6
Personal Income	2.7	4.8	0.8
Sales of Retail Stores, Deflated	-1.9	0.8	-0.2
Short-term Business Credit	9.3	2.8	2.1
Manufacturers' New Orders, Durable Goods Industries	-1.4	-7.4	-5.6
Manufacturers' Unfilled Orders, Durable Goods Industries	7.8	-6.8	-2.8
Unfilled Orders, Durable Goods Industries	5.4	-53.2	2.6
Manufacturers' New Orders, Capital Goods Industries, Nondefense	-4.9	-9.2	-6.9
Manufacturers' Unfilled Orders, Capital Goods Industries, Nondefense	10.7	-7.3	-4.2 (3)
Business Expenditures on New Plant and Equipment (4)	6.0	3.1	-4.8
Purchased Materials, Companies Reporting Slower Deliveries (Percent Reporting)	-10.4	-21.1	-13.6

	November 1973 to April 1974	November 1969 to April 1970	May 1960 to October 1960
Production Materials, Companies Reporting Commitments 60 Days or Longer (Percent Reporting)	-1.2	-7.7	-9.1
Ratio, Prices to Unit Labor Cost Index Manufacturing	6.6	-1.7	-0.3
Vendors Performance, Companies Reporting Slower Deliveries (Percent Reporting)	-7.7	-16.1	21.9 (5)

(1) Calculated from dates of peak employment to five months later, rather than dates shown.
(2) Actual change instead of percent change.
(3) Series not available prior to 1968; the percent change for May 1960 to October 1960 is calculated using Manufacturers' Unfilled Orders for Machinery and Equipment.
(4) Quarterly data.
(5) Positive reflects changes at very low levels.

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FOR IMMEDIATE RELEASE May 31, 1974

FINANCIAL INSTITUTIONS TO BEGIN
REPORTING $10,000 CASH TRANSACTIONS

The Treasury Department announced today that effective June 15, banks and other financial institutions should begin reporting to the Internal Revenue Service (IRS) all cash transactions involving more than $10,000. An April 1 Supreme Court decision upholding the so-called Bank Secrecry Act declared constitutional implementation of this requirement, contained in Treasury regulations based on the Act. Enforcement of this provision had been enjoined pending the Supreme Court decision. The U.S. District Court for the Northern District of California dissolved that injunction this week.

The currency transactions should be reported on IRS Form 4789, available at any IRS district office.

Other regulations implementing the Act -- designed to deter and frustrate white collar crime and tax evasion -- have been in effect since 1972 and include the following:

1. A bank must verify the identity of customers and keep certain basic records of customers' transactions, including the original or microfilm of most checks drawn on the bank for more than $100.

2. Travellers entering or leaving the U.S. with more than $5,000 in currency or bearer securities must file a report with the U.S. Customs Service.

3. A U.S. taxpayer who has a foreign bank account must disclose that interest on his Federal income tax return.

The Treasury also pointed out that neither the law nor the regulations give law enforcement officers any additional authority to gain access to the records of financial institutions. Access by the Government is subject to existing laws regarding subpoena, administrative summons, and other legal processes.

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WS-15 (OVER)

TITLE 31 - MONEY AND

FINANCE: TREASURY

Chapter 1 - Monetary Offices,

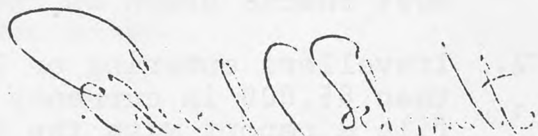
Department of the Treasury

Part 103 - FINANCIAL RECORDKEEPING AND REPORTING OF

CURRENCY AND FOREIGN TRANSACTIONS

NOTICE

The Treasury Department announced today that beginning June 15, 1974, the regulations requiring banks and certain other financial institutions to report unusual transactions involving more than $10,000 in currency will be enforced. The regulations are among those which implement Titles I and II of P.L. 91-508, which was upheld by the Supreme Court on April 1, 1974. Until the Court's decision, enforcement of the provisions requiring the reporting of large domestic currency transactions had been enjoined by a Federal district court. Such transactions should be reported on IRS Form 4789, which may be obtained from any Internal Revenue Service district office.



Edward C. Schmults
General Counsel

Date: MAY 31 1974

David R. Macdonald
Assistant Secretary

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FOR IMMEDIATE RELEASE June 3, 1974

EMERGENCY LOAN GUARANTEE BOARD
FAVORS TEXTRON INVESTMENT IN LOCKHEED

Treasury Secretary William E. Simon, Chairman of the Emergency Loan Guarantee Board, today expressed the Board's favorable reaction to the joint announcement by Lockheed Aircraft Corporation and Textron, Inc. of a tentative plan which would provide a substantial equity investment by Textron in Lockheed, the only borrower under the Emergency Loan Guarantee Program.

He added that the Board believes such an arrangement would considerably improve Lockheed's capital position. This, in turn, will enhance and better assure the Company's long-term viability and the success of its existing commercial and military programs.

Secretary Simon noted that the plan contemplates a restructuring of Lockheed's debt and elimination of the need for Government guarantee commitments, thus fulfilling the basic objective of the enabling legislation, enacted in 1971, to provide major corporations with financial support during a period of illiquidity.

While the Board is mindful that many details remain to be resolved in implementing such an arrangement, it considers today's announcement a key milestone in Lockheed's efforts to attain a strong position for the future.

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INFORMAL REMARKS BY THE HONORABLE PAUL A. VOLCKER
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
BEFORE THE
CONFERENCE ON WORLD MONETARY DISORDER
AT PEPPERDINE UNIVERSITY AT MALIBU, CALIFORNIA
(TRANSCRIBED FROM RECORDING)
FRIDAY, MAY 24, 1974

I now am convinced that you arranged this conference with some malice aforethought. I agreed to come, and then I saw the title. You named it "World Monetary Disorder." After five and a half years in Washington laboring in the monetary vineyards, I don't like to make my valedictory to a conference on monetary disorder!

I must say I was intrigued, too, by the subtitle of the conference. It says, "Conflict Between National Policies and International Imperatives." I was wondering about the distinction you had in mind between a "policy" and an "imperative." I decided you must have some internationalists here who decided to put the international side of things

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first. That is all right with me, but it does show what the problems are in international monetary reform. This is the guts of the matter. The preliminary program upon which I accepted the invitation put the issue more neutrally: It said, "Conflict and Cooperation," and I think that's a good description of what I have been going through in the past five and a half years. When we talk about monetary reform, we are talking about achieving a reconciliation between national imperatives and policies and requirements and objectives, and the needs of other countries, and their own imperatives and requirements -- generally termed, the interests of the international community.

We do have conflicts in this process, and we do have a need for cooperation. I think the creative act, of course, is to make out of the potential for conflict a cooperative order which can enable an individual country to further support its domestic objectives, such as growth and high standards of living, and at the same time mutually interact with others in supporting their goals.

If that sounds a little Pollyannish, and sometimes it seems that way, I would just remind you the whole theory of free and liberal trade is based on the simple notion that one

can reconcile what is good for one country in the economic area with what is good for countries in general. And there is a road toward not simply making a gain at the expense of another, but all gaining together.

In a sense, that's what all of the discussion is about.

Now, that's highly philosophical, and I do want to come down a bit out of those clouds, because we are rapidly approaching a benchmark -- not the completion of monetary reform, but a benchmark on the road in that direction -- an end of one phase of the monetary reform discussions in a meeting scheduled with the so-called "Committee of Twenty" in the early part of June. One thing we expect with great confidence is that that will be the last meeting of the "Committee of Twenty", as such. They are finishing a phase of work after an intensive two-year period of work on monetary reform -- a two-year period of work that has seen meetings in Washington and on a number of occasions in Paris, or Rome, Nairobi and spots in between. One of my colleagues calculated how many thousands of meals the IMF has provided to all these conferees over the past two years and wonders what the result is.

The fact is, as you know, that these discussions on organized reform were caught somewhat in midstream or downstream, before all the decisions had been made, by two sweeping economic phenomena: First, the oil situation, a situation without any close parallel, I think, in international financial or economic history, featured by vast amounts of money moving through world markets from countries and to countries that in a financial sense haven't loomed large before, with great new problems inherent in the situation. It wasn't clear how this situation could or should be handled within the framework of a reformed monetary system.

Secondly, and I would put even more emphasis on this factor than on the oil situation, there is the prevalence of worldwide inflation. With domestic monetary systems disturbed to the extent that they have been by rising prices, with all the instability and uncertainties associated therewith, it is difficult to have a strongly organized international monetary system. An international monetary system links domestic monetary systems, and if the domestic monetary systems are themselves in an unstable condition, it is very difficult to conceive of a stable international monetary system.

Because of these factors I think there is a consensus, very widely shared among governments, that for the time being the kind of flexible arrangements that are in place are going to have to persist for a while. There are certain advantages in these arrangements during this period of considerable uncertainty and fluctuations in domestic as well as international markets. If floating exchange rates are particularly suited to coping with anything, they certainly are suited to coping with this kind of uncertainty.

Against this background, it is time to pause and take stock of where we want to go and how we want to get there, and evolve a new system perhaps in a more evolutionary way than was contemplated when the reform process started some two years ago.

It's difficult to quarrel with that as a sensible approach, but it obviously is not a fully satisfactory situation. It's a frustrating kind of situation to be in, and I think it's met with two different and opposite responses around the world by those who are to some degree frustrated by the reform effort. I will state these views in extreme form and caricature them a bit, but I do think there is some reality here.

There is a group that says that, in fact, all these reform discussions haven't achieved anything. Bretton Woods has broken up. We have made no progress in putting anything concrete in its place. Monetary reform is a failure. We ought to politely bury this reform exercise, wait a while and start over again. I imagine that someone at Pepperdine may belong to that school judging from this title. I think it is a view that is quite widely held -- perhaps particularly in some European circles and I am tempted to label it the European banking view just to give you some flavor, recognizing that is a vast oversimplication. It is a view widely held by people who equate monetary reform with a rather rigidly fixed exchange rate system, convertibility and par values set and held firmly in place -- if you don't have that you don't have anything. That's one view.

There is an opposite view that is considerably more smug, I would say. That school says all this monetary reform effort has been irrelevant, but that's essentially a good thing, because the problem has basically been solved. We should have floating rates. We like floating rates. That's what we have so regardless of what all you officials and others have been talking about interminably, events have turned

out just fine. We have reform without knowing it, and a good reform, despite the best (or the worst!) efforts of the central bankers and finance ministers to arrange a different system. Let me call that view, just so you get a little flavor of it, the American academic view, because I think it is rather widely held in American academic circles. But, again, that is, of course, a caricature.

Now the one thing these two views have in common, as I noted, is they both think this organized reform method was rather beyond the point -- either futile or damaging. What I have been doing for at least a good part of my time in recent years I shouldn't have been doing.

Now you won't be terribly surprised, I think, if I tell you I think both of these views are wrong, and rather fundamentally wrong. They both lead to a dead end and difficulties.

The first seems to me really a counsel of despair -- that if you don't have a particular kind of system, which fits one vision of the future, you have nothing. The danger is this attitude easily leads to incentives not to cooperate in the context of what you have, not to make the best of what you have, not to recognize the fundamental need, whatever the

the formal characteristics of the system, to cooperate closely to make the system work.

I think the second school would lead -- although it is a more hopeful and more optimistic school, in their view -- to the same kind of difficulty. It ignores the fact that there are fragmenting tendencies in the world economically, not only in the monetary system but also in other elements of the world economy, to say nothing of political issues. They would ignore, in my view, that there are elements of disorder in the present situation, and in a general framework of floating and great flexibility that flexibility can be abused, that we need to be working towards rules of conduct that help assure a more cooperative, a more assuredly cohesive, system than what we have.

Those are the dangers I see implicit in the attitudes which I caricatured. I defend the proposition, the basic thesis, that we must move ahead, naturally in a sensible and evolutionary way, with this organized reform effort. I would just state a few fundamental propositions in that connection.

We do live in an interdependent world. We can't escape it. What others do affects us. What we do affects others. That's going to be true of any kind of an international

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monetary system we can design.

Let me take just one example. Proponents of floating rates have sometimes argued that one of the advantages of floating rates is that they enable a particular country to insulate itself from external influences -- let us say, in the monetary policy area, as one area.

I question whether that's true. In fact I do not think it is true. What we see is that the basic interdependence only takes a different form. If one country has easy money and another high interest rates, in a floating rate system the first country doesn't lose reserves. You, therefore, don't have that kind of a crisis, or potential crisis, characterized by a reserve loss. But you do see your exchange rate depreciate.

For a variety of reasons, good and bad, psychological or real, very often people don't want to see the exchange rate of their currency depreciating sharply. For one obvious reason, it has got an inflationary impact at home. I would suspect from my years of observation, either inside or outside the United States Government, that there have been times in the past two years when the depreciation of the dollar in

the exchange markets was at least as strong an influence on policy makers, in terms of shaping their general economic policies and monetary policies, in particular, as international developments and international movements of funds had been under the old system. And, if we can contemplate situations in which one country may be happy with a depreciative exchange rate, we have to consider whether its trading partners are also willing to live with the situation.

So it is an illusion to think that we can design an international monetary system that insulates us from a need to cooperate and to integrate our policies to some extent with what's going on in the rest of the world.

Now, if that is true, my second thesis would be that we do need rules -- some sense of rules, guidelines, codes of conduct, whatever you call them -- as to what countries may do or not do in particular situations so that they don't get in each other's way. How do you, in a practical way, coooperate with each other when you are interdependent?

The rules obviously need to make economic sense; that's why we argue about how much flexibility in exchange rates, and we argue about objective indicators, and we argue about how much liquidity is right for the world and what to do about gold and what to do about SDR's and all the rest. These

are all technical questions that you have to resolve in a way that makes economic sense -- that respects the way markets in fact operate, that permits and promotes as free a flow of trade and capital as possible to promote competition, and all the rest.

That's a common place for an economist. But the second point that I would emphasize is you have to make political sense, too. You're dealing with international institutions, with a variety of countries, with international life and behavior. The rules have to appear to governments to be fair and even handed and equitable, not to give one country or another undue advantage, to treat them all more or less symmetrically in some sense. I think sensitivity to this political dimension may become more important, rather than less, as we move ahead. The United States is not as dominant as it once was. The self consciousness, politically, of other countries is increasing as their economic strength increases. The European community, collectively, is now strong and viable as an economy, almost equal to the United States. You see in many dimensions that that growing economic strength and effort at cohesion has a political expression. You can say the same thing about Japan. The voice of the

developing countries is increasing. All of this needs to be respected in a reasonable monetary agreement, for that agreement is also political.

And, finally, as a corollary of these two points -- monetary rules must be economically sensible and politically sensible -- you must have a system that is reasonably understandable by the citizenry, because you need some sense of national commitment to the rules if they are going to be any good at all.

In a way, after going through this exercise for too many years, I feel perhaps the hardest objective of all to achieve is to keep it all reasonably simple and understandable. It is so easy to elaborate one complex scheme after another which fits someone's idea -- maybe mine, maybe somebody else's -- of what's the most sophisticated and ideal kind of international monetary system. If somebody raises a problem, you are tempted to invent another little gadget here, there or the other place, to take care of it. It's very easy to forget the goal, but I don't think it is unimportant, of simplicity and understandability.

Now, given those criteria, I do think that a fair amount of progress, intellectual and substantive, has been made

since that day in August 1971 when we suspended gold convertibility and, in effect, said the Bretton Woods system was finished. We don't have the new system, with all the T's crossed and I's dotted to put in place. But I do think at this meeting in June we can represent in a fair way where the discussion stands, and if you stand back a little, that picture will show quite a lot of progress.

It will suggest, in that terribly difficult area that goes in the jargon under the label of the adjustment process, a sensible approach of experimenting with a blend of so-called assessment and objective indicators, to summarize the complex discussions that have taken place through these years in just a few code words.

I think there is also a consensus for a more flexible use of exchange rates in the international system, a consensus that certainly does not extend to going -- or to maintaining permanently -- a fully floating system.

I think there is a recognition that, in the liquidity area, we want to move toward emphasis on a new international reserve unit -- the SDR as modified and adopted. We want to move away from dependence on gold and dependence on national reserve currencies.

These things almost sound like commonplaces now. I understand that any of them can be questioned. But I submit that they do represent a wide and, I think, rather deeply felt consensus among governments participating in this exercise -- governments in all parts of the world.

Now, this does not imply that many questions have not remained open, particularly in the detailed implementation of these concepts. What I do think is that we will put forward, in June, a reasonable vision of the manner in which the system should evolve -- including those characteristics that I just mentioned. The framework will not be filled out in all detail, although there will be a good deal of technical material accompanying the report to reflect the state of the technical discussion. There is, I believe, a willingness to experiment together with some of the technical devices that have been put forward, and also a willingness to recognize that they should be adapted,changed, evolved, in the light of experience. But I do think it is important that we do have some sense of an agreed vision, subject to evolution and adaptation, but some sort of agreed vision of the broad directions in which we want to move. And I think that

possibility exists.

Backing that up, there are a series of immediate steps that can be taken to help manage the present situation and help move it toward the vision that I referred to. Steps will be taken at that time to redefine the SDR, to adapt it to this floating situation that we are now in, and to put that instrument practically on its feet. It is important that, by the time of the meeting, the so-called oil facility, or the Witteveen facility -- a kind of back-up facility for recycling some of these vast flows of oil money, be put in place, that it begin operating and begin operating soon. And I think the prospects for that are good.

In the present uncertain situation, with strong pressures and great uncertainties weighing very much on the minds of people in many countries responsible for their balance of payments and trade positions, it is important that countries of the Western world reaffirm their resolve not to take selective and restrictive trade measures for balance of payments purposes. I think we can strengthen the hand of the IMF in this area, and I would expect concrete progress on that front in June.

Most importantly to many people, given the situation which we are living in, I expect that governments will agree

upon some general guidelines for floating -- rules of good behavior in the management of a floating rate system -- to help assure that one country intervening in the exchange markets (or taking other action to affect its exchange rate) observes rules of behavior that are compatible with the interests of other countries. I expect that such guidelines will be forthcoming at this meeting.

I think there will be more general indications of how we might experiment to exercise better surveillance over the adjustment process and the development of international liquidity.

Finally, there should be an institutional step taken -- and sometimes these institutional steps turn out to be more important than any of the detailed policies adopted at a particular time -- that I think over time will reinforce the central position of the IMF in managing the monetary system. The idea is to bring within the IMF, as a permanent body, a Council of Ministers charged both with keeping the reform exercise moving and give it some attention and direction, and with keeping the current situation, as it develops, under close review.

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The object here, quite frankly, is to bring a little more political clout -- international political clout -- to the IMF, and in turn to have international concerns reflected intimately and directly in the councils of national governments -- concerns that these ministers will help develop and generate by merely being in a meeting and sitting together discussing common problems. Let's force governments to sit together -- regularly at reasonably frequent intervals -- so that they can discuss problems around a meeting table, arrive at some consensus as to what reasonable action may be, and do it at a sufficiently high level of responsibility so that there is negotiating power, and when the official goes back to his capital there is some chance that there will be full follow-through on the agreed action. This can be an important institutional innovation in maintaining and strengthening the position of the IMF.

Now, in stating all this I fully recognize that, whatever my personal hopes and confidence, whether the objectives I express here will actually be borne out is going to depend, in the end, not upon what I say or what the communique says, or what the resolutions say, or what amendments to the IMF Article say if we have those, but what people actually think,

how strongly they support the objectives, and how they behave over time. Will they take it seriously or won't they?

Let me say there are certain Biblical criteria that may well be relevant here.

I think we need a certain amount of faith, in the sense of a political commitment by the governments in the western world that they want to act together; that we're not all individually going to act in an isolationist way, but we recognize there is a broader community that must be served. We need that faith.

I think we need a little hope that internal economic pressures and domestic political turmoil aren't going to turn us inward; that, to take one important example, we can resolve our political problems here and abroad to the extent that such constructive initiatives as our trade legislation and international trade negotiations can go forward -- an area which is so closely related to the monetary area.

Not least, in the light of the development problems around the world we need in a quite literal sense to retain a sense of charity. Certainly, for instance, the IDA Legislation now before the Congress is an essential part of the effort toward a constructive world order.

I have not discussed extensively the oil problem. But I would say briefly the most severe repercussions of that problem are for a group of developing countries that have no way of paying this increased oil bill without being faced, literally, with starvation and putting back their development programs for many years. Where progress in response to the crisis has, in a sense, been slowest, although the need is most urgent, is in meeting this particular need. I think the day is long since past when we could consider the problems of the developing countries as something out in left field or right field that we can deal with separately from the mainstream of the problems of the world economy.

So we need a little faith and hope and charity.

But I am not going to leave you with any thought I confuse myself with St. Paul, because there is another thought that I would like to put all the emphasis on in closing -- we all need a better sense of price stability in all of our domestic markets, including the United States, if monetary reform -- and many other objectives -- is to be a reality.

This is perhaps, a very mundane note upon which to conclude. But the only thing that would really discourage me

about this picture is if I thought that the United States could not get a handle on this inflation. I naturally worry a little less about other countries, but I also think it is important that they get a handle on this inflation problem. Whatever the mechanics of the system -- whether we try to go in one extreme direction toward fixity or another direction toward floating rates -- we are going to justify this label of disorder this meeting was given forever if we have inflation of the magnitude that characterizes the countries of the western world today.

It would be a whole other talk if I attempted to deal with this problem in detail and what to do about it. I don't think we have given it enough attention in the past. I think we have been inclined, whenever the hard choices arise, to take the risks on the side of a little more inflation, in the thought that hurts a little less than other things. I think that attitude is rather widespread in the American community and in foreign communities. But I think at this point, at least I hope, it is becoming clear that that kind of thinking will ultimately be based on a misapprehension.

I am convinced that the kind of inflation that we now have, if prolonged, would have effects on American economic institutions, and certainly on financial institutions, that

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will mean that we don't face a simple trade-off between a little more inflation and a little less growth, or a little unemployment. We will wind up with both -- more severely than if this problem is handled in a more timely fashion.

I do think it can be handled. I think the prospects for slowing inflation are improving rather than getting worse. But I don't pretend that it's an easy problem, that we can avoid all risk of disturbances in the process of bringing inflation under control. But I think that's the direction in which, after twisting and turning, national policies are directed. I think that's the direction in which they must responsibly be directed. I think it is going to take some sustained effort to do the job.

I do want to emphasize again that I think our success internationally, or lack of success internationally, in the monetary area is going to be determined by the success of all these fights on the home front, here and abroad, more than by any other action that I can think of anyone taking.

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FOR RELEASE 6:30 P.M. June 3, 1974

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.6 billion of 13-week Treasury bills and for $1.9 billion of 26-week Treasury bills, both series to be issued on June 6, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing September 5, 1974		:	26-week bills maturing December 5, 1974	
	Price	Equivalent Annual Rate	:	Price	Equivalent Annual Rate
High	97.940	8.149%	:	95.779 a/	8.349%
Low	97.888	8.355%	:	95.725	8.456%
Average	97.902	8.300% 1/	:	95.740	8.426% 1/

a/ Excepting 1 tender of $200,000

Tenders at the low price for the 13-week bills were allotted 81%.
Tenders at the low price for the 26-week bills were allotted 47%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 51,295,000	$ 39,295,000	:	$ 30,020,000	$ 18,020,000
New York	2,967,575,000	2,128,075,000	:	2,859,960,000	1,618,045,000
Philadelphia	30,350,000	30,350,000	:	14,550,000	14,550,000
Cleveland	68,085,000	58,085,000	:	52,560,000	32,560,000
Richmond	39,320,000	37,680,000	:	23,315,000	20,860,000
Atlanta	35,715,000	33,070,000	:	30,030,000	23,650,000
Chicago	168,735,000	105,355,000	:	142,700,000	71,700,000
St. Louis	49,055,000	31,675,000	:	49,525,000	21,675,000
Minneapolis	13,815,000	13,815,000	:	10,770,000	5,710,000
Kansas City	39,310,000	39,310,000	:	31,745,000	26,965,000
Dallas	26,130,000	26,130,000	:	22,660,000	17,660,000
San Francisco	86,205,000	57,205,000	:	111,730,000	28,730,000
TOTALS	$3,575,590,000	$2,600,045,000 b/		$3,379,565,000	$1,900,125,000 c/

b/ Includes $441,305,000 noncompetitive tenders accepted at average price.
c/ Includes $281,520,000 noncompetitive tenders accepted at average price.
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 8.60% for the 13-week bills, and 8.92% for the 26-week bills.

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FOR IMMEDIATE RELEASE June 4, 1974

WITHHOLDING OF APPRAISEMENT ON TAPERED ROLLER BEARINGS FROM JAPAN

The Treasury Department announced today a withholding of appraisement on tapered roller bearings from Japan pending a determination as to whether they are being sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended. The term "tapered roller bearings" encompasses equally matched tapered rollers which roll easily in a tapered raceway formed by an outer cup and an inner cone. The bearings are primarily used in transport equipment such as trucks, automobiles, and trailers.

This decision will appear in the Federal Register of June 5, 1974.

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 of January 1, 1973 through December 31, 1973, imports of tapered roller bearings from Japan were valued at roughly $16,000,000.

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Department of the TREASURY NEWS
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FOR RELEASE 10:00 A.M., EDT
TUESDAY, JUNE 4, 1974

STATEMENT OF THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
ON REVENUE SHARING BEFORE
THE INTERGOVERNMENTAL RELATIONS SUBCOMMITTEE
OF THE
SENATE COMMITTEE ON GOVERNMENT OPERATIONS
TUESDAY, JUNE 4, 1974, 10:00 A.M., EDT

Mr. Chairman and Members of the Subcommittee:

I am pleased to appear before this subcommittee to testify about the Revenue Sharing Program. It is a central part of our effort to restore the Federal system by returning decision-making authority to State and local governments. Mr. Graham Watt, the Director of the Office of Revenue Sharing, and I believe that this program has been successful. It provides flexibility to State and local officials to spend according to priorities they consider most important.

This morning we would like to illustrate the kind of contributions Revenue Sharing has made. I think you will see that the progress has brought benefits directly to individuals in every community, some of which are so small as to be virtually unknown to many people. Let me illustrate with some examples:

Sheffield, Alabama. Revenue sharing funds have made it possible for this small southern city to start a mobile health unit

which brings health care to people who have great difficulty walking to the health agency. The health unit is also helping teach low-income families how to clean up and take care of their homes. A recreation program which had been neglected for many years was revitalized. Basketball courts have been built. Tennis courts and swimming pools have been improved, and the baseball diamond at the municipal field has been relighted. The old library, which is housed in an old supermarket has been completely renovated, and a new fire station is being built.

Furthermore, the city is sponsoring an experiment to improve blighted areas. An all-black 5-man board will go into black areas, prescribe what has to be done to improve the homes, and it will contract black construction firms to make the needed improvements.

Mayor F. E. Draper maintains that revenue sharing will allow smaller cities to take care of the citizens' needs without being unduly restrained by a maze of federal regulations.

In Burlington, Vermont, a local company gave an old building to the senior citizens. The city gave funds to the senior citizens to defray the cost of rewiring the old building which now serves as a center for the elderly. The city also built a new ice-rink using some revenue sharing money, purchased a beach house on Lake Champlain, and spent $50,000

for new equipment for the city's parks.

Out west, the people had different ideas about how to spend their revenue sharing money. In Santa Clara County, California, three halfway houses have been funded to treat alcoholics. A new rat control program was started. A Community-action program is guiding high school dropouts back to school or to meaningful employment. The county says summer employment for the county's poor youth will be more readily available as a result of revenue sharing. The county told the Revenue Sharing office that it uses its share of the money to fund a panoply of programs to help meet the most pressing human needs of its citizens.

Let me conclude this recitation by highlighting programs in four other places:

In Kershaw County, South Carolina, a child development program was established to help economically underprivileged children get the same start on life as other kids.

In Lee County, Iowa, the citizens of this corn county were spared an increase in property tax and were able to meet their number one need: the care of the elderly.

In South Bend, Indiana the city allocated $110,000 for a methodone treatment center which is part of the city's new drug center. Architecture and design fees for a new civic center were paid for with revenue sharing money.

Finally in <u>Hutchinson, Kansas</u> $10,000 went to a "meals on wheels" program which serves one hot lunch a day to the old, sick poor who are unable to prepare their own meals. Also, they bought two used vehicles and installed insecticide sprayers on them so they can criss-cross the city releasing a foggy mist which kills flies and mosquitos

One can not help but draw the conclusion that revenue sharing is helping the people most by letting them decide what needs take priority in their communities. There is no way that the Federal government can spend this money more wisely than the local governments that see and feel the needs of their citizens daily.

It is precisely because of this that the program has been so well received.

Revenue Sharing was enacted into law in the fall of 1972 after years of effort by Democratic and Republican administrations and by members of congress from both sides of the aisle. It was a bold step to take, because passage of the State and Local Fiscal Assistance Act of 1972 marked the beginning of a radically new approach to Federal financial assistance to states and local governments. It represented an acknowledgement of the fact that all of the decisions about expenditures of federally-collected revenues are not necessarily best made

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by the Federal Government.

It recognized that the tens of thousands of local governments in America serving communities with populations of 50,000 or less are as entitled to Federal support as are the more sophisticated governments that can afford to hire grantsmen to pursue categorical aid awards. And it recalled the efforts throughout our history to achieve a proper balance among Federal, state and local levels of government - a balance in which each level exercises those functions that it can perform best.

Now only a little more than a year and a half after revenue sharing emerged from concept into reality, more than $12 billion has been paid to states, counties, cities, towns, townships, Indian tribes and Alaskan native villages in every part of the country.

General revenue sharing is a key element in the philosophy of New Federalism, which stresses the need to recognize the different roles appropriate to each level of government - and to the private sector - thereby strengthening individual choice and self-reliance in America.

Already general revenue sharing is helping to achieve a new intergovernmental balance of responsibilities and capabilities by more closely matching resources to needs

at the state and local levels. It emphasizes the importance of State and local governments close to, and responsive to, the needs of individuals and local communities.

General revenue sharing is a new and significant component in our system of intergovernmental finance. Each year it provides over $6 billion to States and local governments to use in meeting public needs as they see them. But the value of general revenue sharing becomes even greater to the extent that we improve the functioning of the other major components of our nearly $52 billion a year program of Federal aid to State and local governments.

President Nixon's New Federalism stresses the need for each level of government to focus its attention on the functions most appropriate to that level. Accordingly, he has put forward initiatives to consolidate and simplify grant programs, and to decentralize Federal agencies to allow more productive working relationships with States and local governments.

The Administration seeks to substitute broad-based grants for narrow categorical grant programs in vital areas such as education, community and economic development, and transportation.

Even after these proposed measures become law, however, most grant funds will continue to flow from existing categorical grant programs, which require our continuing best efforts toward simplification and efficiency.

I know that the members of this Committee have worked long and diligently to strengthen our Federal system, to help make each level of government more capable of fulfilling its responsibilities, so that the needs of America may be met and our common goals achieved.

We in the Treasury Department are glad to participate in this endeavor, and are proud to have had the responsibility for putting revenue sharing into practice. We welcome your review of this new and promising program and look forward to working together with you and your colleagues toward future improvements in our Federal system.

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Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR IMMEDIATE RELEASE June 4, 1974

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $4,500,000,000, or thereabouts, to be issued June 13, 1974, as follows:

91-day bills (to maturity date) in the amount of $2,600,000,000, or thereabouts, representing an additional amount of bills dated March 14, 1974, and to mature September 12, 1974 (CUSIP No. 912793 UP9), originally issued in the amount of $1,801,885,000, the additional and original bills to be freely interchangeable.

182-day bills for $1,900,000,000, or thereabouts, to be dated June 13, 1974, and to mature December 12, 1974 (CUSIP No. 912793 VC7).

The bills will be issued for cash and in exchange for Treasury bills maturing June 13, 1974, outstanding in the amount of $4,303,175,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,529,650,000. These accounts may exchange bills they hold for the bills now being offered at the average prices of accepted tenders.

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, June 10, 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 and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions

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FOR IMMEDIATE RELEASE June 4, 1974

ASSISTANT SECRETARY JOHN HENNESSY LEAVING TREASURY
TO JOIN FIRST BOSTON CORPORATION

The President announced with regret today the resignation of John M. Hennessy as Assistant Secretary of the Treasury for International Affairs. Mr. Hennessy will leave Treasury on July 1 to join the investment banking firm, First Boston Corporation, where he will be a Director of the Corporation and Vice President handling international operations, based in New York.

In commenting on the announcement, Treasury Secretary William E. Simon said:

"Jack Hennessy has made a great contribution to the Treasury and to the Nation, serving four Secretaries of the Treasury during a critical period of United States foreign economic history. His diligent work and advice have made an important contribution to international economic policy. We will greatly miss his talents."

Mr. Hennessy was appointed a Deputy Assistant Secretary of the Treasury in September 1970 and Assistant Secretary on June 12, 1972. During his tenure at Treasury in addition to his work in the areas of trade and monetary reform, he made particularly important contributions in several specific areas -- working with Congress to obtain appropriations for the World Bank, Inter-American Development Bank and Asian Development Bank -- serving as Acting U.S. Governor and Alternate Governor to several annual meetings of these international financial institutions -- and during the 1971-1972 period as the Chief U.S. negotiator in the important discussions with the Chilean Government on resolving outstanding differences in the investment and debt field.

Prior to joining the Treasury, Mr. Hennessy worked as an Economic Consultant with Arthur D. Little, Inc. of Cambridge, Massachusetts, and was a part time instructor at Sloan School of Management of Massachusetts Institute of Technology. From 1958 through 1968, he worked for the First National City Bank in New York and in several foreign countries.

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In 1964, he was the youngest man in the Bank's history chosen to set up and be in charge of overall operations in a foreign country, when he established a branch of the Bank in Bolivia. Subsequently, he also served as General Manager of the Bank's operations in Peru.

A native of Brookline, Massachusetts, Mr. Hennessy received a B.A. degree, magna cum laude from Harvard University in 1958. He was also a National Science Foundation Research Fellow at the Sloan School of Management of the Massachusetts Institute of Technology, where he completed all requirements for Ph. D. in international business and economics, except the dissertation.

He is married to the former Margarita Casaccia of Asuncion, Paraguay. They have two children. Mr. Hennessy is a director of the Inter-American Foundation and a member of the American Economic Association, and the American Council on Foreign Policy. He has contributed chapters to two recently published books on U.S. international economic policy.

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FOR RELEASE AT 8:15 P.M. JUNE 4, 1974

WELCOMING ADDRESS
BY
THE HONORABLE WILLIAM E. SIMON
SECRETARY OF TREASURY
TO THE
INTERNATIONAL MONETARY CONFERENCE
WILLIAMSBURG, VIRGINIA

Ladies and gentlemen, I am honored to be the first speaker at the 1974 International Monetary Conference. It is also my pleasure to welcome many of you to the United States and, in particular, to be able to welcome you in Williamsburg. This graceful town has been the site of many historic meetings which were important in the evolution of our nation's political concepts and institutions. In fact in this community, which has exhibited limited tolerance for despots, I am glad to be appearing as a mere minister and not as a "czar."

As a mere minister I am grateful for the reception you have given me. I know that you have traditionally invited U.S. Secretaries of the Treasury to participate in your discussions of current economic and financial issues. I appreciate the opportunity to take part --

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along with my colleagues, Arthur Burns and Paul Volcker
-- in discussions with such an experienced and knowledgeable group.

George Shultz told me that last year when he tried to talk on energy developments you insisted that he give more attention to international monetary affairs. Now, after the events of the past year, perhaps you would expect me to talk a lot about oil -- and, admittedly, it is a subject which can't be ignored -- but I really want to say more tonight about inflation and international monetary reform.

Of course, all these subjects are inter-related. The world is wrestling simultaneously with a uniquely strong and pervasive inflation; the need for rational and equitable arrangements for international access to raw materials and other commodities; and dramatic changes in international payments relationships.

These are problems on which we must work together, for we all know that they are problems which must be resolved not only domestically but internationally if our prosperity is to be assured. I suggest that we approach them with both confidence and a healthy respect; with a confidence derived from the durability, in both good times and bad, of the cooperative approach which the world has employed since World War II; and with a respect derived from a recognition

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that today's economic problems differ both in character and magnitude from those of the past.

Inflation

Certainly today's inflation is more pervasive than any experienced before in peacetime. In the United States we are in the unfamiliar position of seeing our price rises recorded in two digits, and few countries are doing better.

Some of the factors contributing to this widespread inflation are well known -- the unique convergence of boom conditions in all industrial countries; sudden shortages of food resulting from natural disasters and burgeoning demand; and drastic changes in the energy balance. At the same time, we must recognize that these factors would not have led to the inflation we see today had our governments shown the wisdom to match financial policies to current reality.

Each government must bear responsibility before its own people for the inflation it permits. Governments which fail to deal effectively with inflation will be held answerable by their own constituencies. In this connection, however, international comparisons are important. I am sure each of our nations would be less tolerant of the inflation it has if other nations were presenting less disreputable records. More directly, we have all learned that increased prices of goods we import or extraordinary demands from abroad when foreign markets are over-heated can complicate our inflationary problems at home.

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Here in the United States, we have now recognized that inflation is our number one economic problem. It is not the only economic issue we presently face -- there are many -- but it is by far the most important, the most complex and the most intractable.

I have confidence that the United States will come through this long bout with inflation without crippling effects. Our political and economic system has proved itself to be adaptable and durable. We have been in some tough economic situations in the past and yet succeeded in overcoming the difficulties and advancing to new higher levels of economic well-being for all our people. We shall do so again.

Yet I do not suggest that we will end the present inflation easily or quickly. A very high rate of inflation is now built into our system. To reduce that inflation to tolerable levels will take time, and it will not be achieved without pain.

There is no easy solution. We tried controls and found them wanting. For a while, back in 1972, it seemed that controls were making a small but useful contribution. Today, however, almost everybody agrees that, whether or not controls can help for a limited period under certain special circumstances, they are not the basic answer to inflation.

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The only answer lies in the teachings of that old-time religion: more production and less financial laxity. We must return to a proper balance of fiscal and monetary policy. And these precepts will have to be practiced in a consistent and disciplined way over a considerable period of time.

Let me give a specific example where that discipline must be exercised. Right now the U.S. Congress is considering proposals to reduce income taxes as a way of stimulating the economy by increasing consumer spending. These proposals come at a time when there is no question that the real incomes of many American families have fallen as a result of the reduced supplies and increased prices of food and energy. Nobody is happy about that and we must turn that situation around so that individuals' real income is clearly growing. Furthermore, whenever we can, we must improve the equity of our tax system.

But cutting over-all taxes will not solve these problems. Putting more money into the hands of our citizens will not put more food on their tables or more gasoline in their tanks. At present, with most sectors of the economy still operating at full capacity and with materials shortages still widespread, the extra spending generated by a tax cut would do very little to production and employment and real earnings. Instead, it would only mean more dollars chasing an already limited supply of goods -- and that would only mean more inflation -- and over time inflation reduces the effectiveness of an economy. This in turn reduces production and real income.

Frankly, I am mystified to hear some economists talk about recession and the need for tax cuts at a time when businessmen are facing shortages of materials and delays in deliveries, not lack of sales and orders.

A tax cut would, moreover, inevitably put more strain on our financial markets. The Treasury would have to borrow the revenues lost via the tax cut. That would put more upward pressure on interest rates and on the already pinched supply of funds for housing. It would mean a further squeeze on the availability of investment funds for the capital projects needed for new productive capacity, for antipollution equipment, and for Project Independence. In short, a tax cut would be wrong. It would worsen our inflation when what we need is an attack on the basic causes of inflation.

For this purpose we need two kinds of economic policies. First, to deal with specific price problems we need policies to maximize output, for example in the fields of agriculture, energy, and raw materials. Second, to deal with inflation in the balance of the economy, we need fiscal and monetary policies which will prevent total demand from exceeding our capacity to produce.

Indeed, in present circumstances we may have to go a little farther than that. If overall demand and productive capacity were just in balance today, inflation might continue at near present rates for a while given the state of public expectations. After years of disappointment we have ingrained inflationary expectations which must be wrung out through credible policies.

To unwind inflation, the economy may have to operate for a time at a bit less than full capacity. Demand will have to be below total potential output -- very close to it, but below. Sales will show a healthy growth, but that growth will have to be constrained so that if businessmen try to raise prices too fast, competitive pressures will prevent them from doing so. Employment will grow, too. But our labor markets must not be too tight, so that the joint worker-management process of wage determination will result in a gradual deceleration of the upward trend of pay scales.

At the same time we must have adequate programs in effect to insure that adjustment does not place too heavy a burden on any segment of our society. It was in recognition of this necessity that the President recently expanded the assistance programs available to housing and proposed a further improvement of our unemployment insurance programs. But over-all the hallmark of our Government's financial programs today must be moderation.

This prescription will not gain universal acclaim. All of us would like to see spending increase for worthwhile government programs, credit easily and generally available at low interest rates, corporate profits growing vigorously, and unemployment held to an absolute minimum. The economic policies I have outlined will give us most of this, but not all. We will have growth and prosperity but -- if we are to make some headway against inflation -- the economy cannot operate at flat-out, full capacity.

There is no other way. To squeeze inflation out of the system, we will have to run our economy for a while at less than full steam.

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I believe this is a realistic, achievable policy. The political climate has changed on economic matters. Good economics is becoming good politics. I believe the American people are now ready to support tough anti-inflation policies. The past year and a half has reinforced their natural aversion to inflation. They don't believe Government can provide something for nothing. They will support restraint on Federal spending, and they will be willing to live with an economy that is growing vigorously, but not excessively so, to break the back of inflation.

At the same time I believe that the American people also recognize that we must cooperate internationally to insure that our monetary and trading arrangements contribute to the fight against inflation by allowing each nation to derive the maximum benefit from its economic resources. Next week I shall have the opportunity to discuss this subject with my colleagues in the Committee of Twenty when it meets in Washington.

Energy and Raw Materials

Even earlier, however, on Thursday and Friday of this week, I shall participate in discussions in Washington with the senior ministers of the world's largest oil exporting nation, Saudi Arabia. Those discussions will consider ways in which we might cooperate with the Saudi authorities in the development of their country, in the most productive investment of their growing financial resources, and in the creation of rational rules for the future conduct of international trade in energy and raw materials. Of course, I shall explain why it is clearly in the common interest of both oil-producers and consumers not to take actions which will prevent market forces

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from bringing about somewhat lower levels of oil prices. More reasonable prices of oil would contribute greatly to the strength of the world economy: and that strength is of vital interest to all of us, not least to those nations which are large suppliers of energy and investors on a large-scale basis. Here is an area in which international cooperation can play a role of vital importance in combatting worldwide inflation.

International Monetary Developments

But even at somewhat lower levels of oil prices over the next year, it is clear that the increased costs of oil imports will be so great that many consuming nations will wish to borrow to ease their transition to the new era of higher-cost energy. In other words, they will choose to run current account deficits in their international payment balances. At the same time, a number of the major oil producers will wish to invest abroad substantial proportions of their enlarged revenues in the recognition that these sums can be invested in the most productive, orderly manner in their own economies only over a period of years. These nations can derive the maximum benefits from producing and selling their natural resources only if they sell when the demand is most intense -- and that is probably right now -- but that maximum benefit will not be realized if productive investments are not found for their funds.

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In practice these investment funds are probably now being accumulated at the maximum rate. Over the coming months the gearing-up of the development programs of the oil producers and the lower levels of export prices (which I expect) will reduce the rate of accumulation. But the sums available for investment will in any event be large.

The investment strategy of the oil-producing countries will probably evolve over time as they gain experience in managing their growing financial resources. For the immediate future, it seems likely that substantial portions of their resources will initially be placed through markets in Europe, especially the Eurocurrency market. However, whether invested directly or through intermediaries, it seems a fair expectation that a large proportion of the obligations will be denominated in U.S. dollars and that ultimately considerable amounts of the funds will find their way into the highly developed capital markets of the industrial world, particularly that of the United States. To conservative investors -- and the oil-producing countries are proving themselves conservative as well as prudent -- diversification offers security, so that they will wish their investments not to be overly concentrated geographically; but neither will they want over-concentration in particular fields of investment, and diversification for large amounts in this respect can best be found in the most highly developed markets.

Although the potential amount of funds flowing into the hands of the oil-producing countries is absolutely large, it is not overwhelming in the context of the total size of the world's capital markets. In the United States alone equity and debt securities outstanding at the end of last year, including commercial paper and large denomination certificates of deposit, amounted to about $1.8 trillion. During 1973, a total of $187 billion was raised in U. S. credit markets. Clearly these numbers are large in relation to any likely flow of "oil money" in any one year. On the other hand we must take care that individual parts of our financial structure do not become over-loaded in the process of handling the new flows of funds.

In this connection attention has been focussed on the Euro-market. The total of outstanding obligations in that market, net of Inter-Bank obligations, is estimated to have grown to about $150 billion by the end of last year, with an increase of some $50 billion during that one year. During the early months of this year the growth of that market appears to have further accelerated. In this situation of rapid change there must be an unusually strong responsibility on a depositor or a lender to insure that the firm he is dealing with has not become over-extended and has capital commensurate with its new higher levels of fixed obligations. There is an unusually strong responsibility on the financial intermediary to insure that it is maintaining

a reasonable balance in its maturities, that it is not, for example, borrowing only at short term and lending only for very long term. I am enough of a believer in the acumen of the men who built up the flourishing Euro-market to believe that they will fulfill their responsibilities in this area. I have heard that in recent weeks, for example, strong new resistance has developed to the acceptance in the Euro-market of new investments on a very short term call basis. I find this response of the private institutions encouraging.

There is nonetheless a proper role for governments in these matters, a role which varies according to circumstances. At present, when there are vast sums which must find their way into productive use, moves which give greater scope to freedom of capital flows are generally opportune. For this reason I was very pleased that the U. S. was able in January to terminate its "temporary" capital control programs, some of which dated back to 1963. There are opportunities also for other countries to reduce their controls. In a related area I commend the recent tentative decision of the House Ways and Means Committee to eliminate withholding and estate taxes on foreign portfolio investments in the United States.

But I believe, too, that governments have regulatory responsibilities in relation to financial institutions to assure protection for depositors and customers and we mean to continue to discharge those responsibilities for institutions under U.S. jurisdiction.

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We need to recognize that foreign exchange operations have in recent years become of much greater interest to many banks. This is a healthy development, consonant with the rapid growth of international transactions and important to the proper functioning of foreign exchange markets. However, recent developments both here and abroad make clear the need to conduct foreign exchange transactions with prudence. Banking institutions deal with others' money and have a special responsibility not to risk it in overly speculative ventures.

I am sure that in the light of some recent experiences that banks will in future monitor the activities of their foreign departments with increased care. Bank regulators, also, have a responsibility to exercise greater surveillance in this area.

(MORE)

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The developments I have been discussing have led some observers to ask whether the challenges ahead raise questions regarding the soundness of the international banking system and its component institutions. In each separate country, it's recognized that the authorities stand ready to support the stability of that country's financial system. But it is suggested that the Euro-banking system has no comparable focus of authority charged with particular responsibility for that market.

I believe that this concern is, at the least, greatly exaggerated. Certainly, in the case of the United States, it is clear that the authorities do have a responsibility to supervise U. S. banks in both their domestic and international operations, and a major part of that responsibility is to insure that they are in a sound position to meet their total liabilities. I feel sure that the authorities of other countries have a similar view.

Governmental regulation and emergency facilities can never substitute for prudent financial management. Governments cannot, and should not attempt, to assume the risks of the stockholders of individual banks. That is as it should be, for the main focus must always be on the responsibility of the banker himself.

Fundamentally, my confidence that our markets and our institutions will adapt safely and flexibly to changes we are now experiencing is also based on the fact that the governments of the world are now dedicated to international cooperation. A prime example is provided by the current efforts in international financial cooperation. At this point I can't tell you exactly what will come out of the meetings of the C-20 Ministers in Washington next week. Even though preparatory work of unusual thoroughness has already been done, important negotiations remain yet to be completed.

Nonetheless, I can list for you some of the areas in which there are reasonable grounds for hope that useful agreements can be reached. In fact, we have an opportunity, if we succeed, to announce a sizable package of significant measures, many of which could be implemented promptly.

One important agreement could cover a proposed amendment to the IMF Articles, and an interim pledge to be in force while that amendment was undergoing ratification, to provide that governments would not introduce new restrictions or subsidies on current account transactions for balance of payments purposes without the concurrence of the IMF. This agreement would build upon the temporary pledge entered into by major developed nations in Paris last week at the Ministerial Council of the OECD. The proposed agreement in the IMF would involve a much larger number of countries and would imbed the new

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undertaking into the formal structure of international agreements. Such an agreement should strengthen the hands of governments in resisting the pressures of particular interest groups which may be urging their governments to respond to the new payments developments with discriminatory, disruptive measures which would be detrimental both to other nations and to the general welfare of the nations introducing the new measures.

Such a stand-still agreement would be a supplement, not a substitute, for the negotiations now underway under the auspices of the GATT for a broad reduction in existing trade restrictions. In order that the U. S. may participate effectively in those negotiations we are pleased that our Senate Finance Committee has now begun what it is hoped will be the final stages of its consideration of the Trade Reform Act. Now that a settlement has finally been reached with the European Community countries on the so-called XXIV-6 problem, we can hope for final passage of this legislation this summer.

We need this legislation, and the reduction in the trade barriers it should permit, more than ever in the light of the events of the past year. I cannot forecast with any certainty whether the U. S. will have a trade surplus or a trade deficit over-all this year, but I can predict with confidence that the increase in oil costs will leave the U. S. with a trade position not nearly as strong as that we had in the final months of last year. And that development leaves

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us more determined than ever that our traders not be damaged by discriminatory foreign restrictions.

A second area in which we hope the finance ministers can bring about agreement concerns new arrangements for more flexible use of the IMF's capacity for financial assistance to member nations struggling to avoid extreme reduction in their imports in view of the oil price increases. In this area, where Dr. Witteveen has exhibited great initiative, we hope that arrangements can be found which will prove satisfactory to those who will be lending to the IMF, to those who will effectively be guaranteeing repayment of that lending, and to those many nations who hope to borrow the funds from the IMF. Since the loans to the IMF are likely to be at interest rates close to market rates, it is our belief that the corresponding loans from the IMF should also be at close to market rates. And we believe that most borrowers will be able appropriately to pay such rates.

There will be a small number of countries, however, which cannot be expected to pay such rates or to repay at all within the next few years. The problems of these countries of

extremely weak financial positions now most seriously affected by the increase in the costs of oil and other imports represent a third area which the finance ministers must address. To assist in considering this and other developmental issues, the ministers will have before them next week a proposal to establish a new Development Council composed largely of finance ministers and organized along the lines of the C-20 itself, which will probably go out of existence next week. The new Council would not be within either the IMF or the World Bank but would be supported by both.

(More)

Before leaving the question of development assistance, I want to mention a matter of pending U.S. legislation that will affect the entire spirit and tone of our C-20 discussions. Last week the Senate passed -- by a two-to-one margin -- the bill providing for a $1.5 billion U.S. contribution to the International Development Association, or IDA, which is the soft loan window of the World Bank. This is the same contribution the House of Representatives voted down last January. We are now going to try for House reconsideration of the bill before June 30, when the Association's present funds will be exhausted. IDA is the cornerstone of international cooperation in the development finance field. Needless to say, our negotiating partners in the international trade and monetary fields are following closely to see whether or not we are prepared to do our fair share in the development area as well.

At the meeting next week the finance ministers, quite apart from their consideration of developmental matters will also have the opportunity to reach agreement on a continuing group at the ministerial level to keep the operation and evolution of the international monetary system under review. This group would serve within the IMF, initially as an appointed advisory committee and later, after amendment of the articles, as a formal Council of Governors acting as a sort of executive committee between the 126 man board of governors and the full time committee of executive directors resident in Washington.

The ministers next week will have the opportunity to see whether they can work toward new rules for gold which would both assist nations in responding constructively to current alterations in their payments positions and facilitate practical steps toward the agreed objective of a diminishing monetary role for that metal. I sincerely hope we can at long last make some tangible progress in this complex area. That progress will be all the more feasible if, as seems entirely possible, we can reach agreement on a basket of currencies in terms of which for the time being it will be possible to express all obligations to and from the IMF both on regular drawings and on use of special drawing rights, the SDR.

At the same time the ministers will be able to build confidence in present monetary arrangement if they can reach agreement on a set of guidelines for the actions of governments in intervening in private foreign exchange markets and in conducting other balance of payments policies.

And, finally, the ministers will have the opportunity to agree on a comprehensive outline of the general directions in which they feel it would be useful for the international monetary system to evolve over the coming years. Such an outline would not be a commitment to any specific actions, but it would be an integrated conception to be taken into account -- along with other factors and experiences -- in making the many future individual decisions which will determine the actual evolution of the system.

The basic thrust of the outline to be placed before the ministers is that efforts should be made to avoid international monetary instability but that this objective can best be achieved, not by foredoomed efforts at complete exchange rate rigidity, but by a system which will encourage prompt, orderly, and flexible adjustment to changes in economic circumstances.

From this long listing I have presented you can see that the finance ministers have their work cut out for them. But that is what we were hired for. With the support of the private banking community -- with your support -- with a continuing spirit of cooperation among the nations of the world, we can be the masters of our own economic future.

Thank you, and best wishes for a successful conference.

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STATEMENT OF THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE
THE SENATE FINANCE COMMITTEE
WEDNESDAY, JUNE 5, 1974

I am pleased, as always, to appear before this able and distinguished Committee. At the same time, however, I must express concern that I am here because major tax measures have been proposed for floor action, before the careful Committee consideration and staff work which such measures need.

Many of the measures proposed would alter provisions that are fundamental in the present structure for taxing business income. Fundamental changes are not necessarily bad. But when they are made, it is important that they be made carefully and that they not be made in a manner so abrupt that taxpayers are unable to digest them. Abrupt dislocations cause economic slowdowns from which no one benefits. Uncertainty alone can cause those major dislocations. When the ground rules become uncertain and the future becomes clouded, businessmen postpone decisions and wait for the outlook to become clearer and more favorable. A chain reaction follows. Modernization and expansion are held in abeyance. Purchases are not made. Sellers, faced with lesser sales, cut back in their operations. Workers are laid off, and so on. Taxes are a very major cost and changes in taxes create very major uncertainties. They must be approached with care.

The Administration strongly supports tax reforms. Over a year ago, we proposed a carefully designed package of changes. Those proposals were presented originally to the Ways and Means Committee of the House. In December, we made additional proposals to tax the windfall profits earned by domestic oil producers on the sale of oil to their fellow Americans.

The Ways and Means Committee has now worked carefully through the windfall profits proposals and has ordered a bill reported. It is now in the midst of considering a wide range of additional tax reform measures and expects to report a major bill by the end of this month.

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Weeks of Committee time and thousands of man-hours of staff time have gone into those efforts in order to produce balanced and technically sound legislation. In normal course these measures should be out of the House and before your Committee and the Senate in a matter of weeks, so that you may consider and adopt legislation for final passage in this Congress. That is the way major tax measures have proceeded in the past, because it is the best way to assure thoughtful and responsible tax legislation.

In 1969, the revisions in our tax laws took nearly a year, while the tax writing Committees explored the changes proposed with their professional staffs, with the Treasury staff and with affected members of the public. Tax revision is a complicated and critical task and we need to work together and do it in a thoughtful way.

The amendments to H. R. 8217 proposed in the Senate include a wide array of proposals for fundamental changes in the existing system. I could not possibly cover with you today all of the pros and cons of the proposals. Many involve technical problems which you ought to explore with members of your own staffs and the Treasury's staff who are more versed in the intricacies of the tax law than I. I should like, however, to make a few general comments about the proposals.

Proposed amendments of the minimum tax.

The proposals with respect to the minimum tax are poor amendments to a poor provision of existing law. They would do more to thwart tax reform than to further it.

The present minimum tax was enacted in 1969. It was supposed to prevent persons with large economic incomes from using tax preferences to eliminate or unduly reduce their tax liabilities. The intent was that they should pay some "minimum tax."

The problem with the present minimum tax is that it does not work. A large number of persons with high incomes still pay little or no tax. It is pertinent to note that this ineffectual provision was the product of Senate floor action.

The problem with the proposed amendments to the minimum tax is that they will not work either. The amendments proposed are (a) to reduce the $30,000 exemption to $10,000, and (b) to eliminate the offset of taxes paid against tax preferences. These amendments would collect more tax, but they would not get at the problem of the high income taxpayer who pays no tax. The principal effect of the proposals would be to increase, in a somewhat haphazard way, the tax on capital gains. Your Committee may well conclude that some change in the taxation of capital gains is desirable, but that is a different problem from assuring that people with high incomes pay some minimum amount of tax.

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Not only do these amendments not do the job, they create new problems and would be objectionable for that reason alone:

-- Reducing the $30,000 exemption to $10,000 causes the minimum tax to apply to middle income persons who are already paying substantial income tax and play no part in the high income - low tax problem.

-- Eliminating the offset for income taxes paid converts the so-called minimum tax into an additional tax. Under the present minimum tax, taxes paid are deducted from total preferences, which tends in a rough way not to impose further tax on persons who are already paying more than a "minimum" amount. The proposed change would render irrelevant the amount of tax already paid and would thus impose a "minimum" tax even on persons already paying large amounts of tax. Paradoxically, the proposed change would have little or no effect on persons who now pay little or no tax, but would penalize most those who already pay the most.

I urge your Committee, as strongly as I can, to approve--when you receive the tax reform bill from the House--the two proposals which the Treasury has developed to replace the present ineffectual minimum tax. The first of these proposals is a "Minimum Taxable Income" (MTI) provision. It would require high income individuals to pay a reasonable and fair share of income tax. The second is a proposal for a Limitation on Artificial Accounting Losses (LAL). It would limit so-called "tax shelters," which permit economically profitable ventures to report tax losses which can offset other taxable income.

I shall not attempt here to explain how those proposals work, except to say that they focus more carefully on a wider range of items than the present minimum tax. The 1974 Report of the Joint Economic Committee compared the present minimum tax with the Treasury approach and concluded as follows:

"The Administration's minimum income tax proposal (MTI)...should be given priority in the interest of improving tax equity, of restoring taxpayer confidence in the tax system and of raising additional revenue."

The following comparisons illustrate the greater effectiveness of the Treasury's proposals over the present minimum tax and the proposed Senate amendments:

	Treasury's MTI/LAL	Present Min. Tax	Proposed Amended Min. Tax [1/]
Revenue gain from individuals ($ billions)	$1.5	$0.2	$0.7
Average tax increase for high income - low tax individuals above $100,000 AGI	$33,000	$9,400	$11,000
Effect on 92 taxpayers in 1972 who had AGI of $200,000 or more but paid no tax	69 out of 92 required to pay tax (average tax of $61,600)	No effect	Only 12 out of 92 required to pay tax (average tax of $9,700)
Effect on "tax shelters" in oil, real estate, etc., which are a major source of the high income - low tax problem	Eliminates tax shelters	No significant effect	No significant effect
Rates of tax	Regular graduated rates from 14 to 70%	Flat rate of 10%	Flat rate of 10%

1/ Would also raise about $800 to $900 million from corporations (an additional $300-$400 million over present law) if percentage depletion is not repealed but would raise much smaller amounts if percentage depletion is repealed. The Treasury would retain the present minimum tax on corporations.

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Proposals to revise taxation of income from business capital.

Two of the proposed amendments would drastically change the terms on which business investment decisions are made. One would lengthen the cost recovery periods permitted under the ADR depreciation system, the other would greatly diminish the scope of the investment credit. Before reviewing each of these proposals which would amend portions of the Revenue Act of 1971, I would like to discuss the aims of the legislation of that time.

The year 1971 was not a good year: unemployment ran at a rate of nearly 6 percent for the year; industrial production was stagnant, running at a rate nearly 4 percent below the peak of two years before; and capacity utilization was fully 12 percent lower. In considerable part, this condition of the economy could be attributed to the overall effects of the Tax Reform Act of 1969 which had repealed the 7 percent investment credit and otherwise increased the tax burden on business capital while reducing taxes on personal income. Just as Secretary Kennedy warned this Committee, the House-passed bill was imbalanced in its effect on consumption and saving, and we are still suffering the consequences.

In response to the need to stimulate business investment, the Administration proposed two bold steps in 1971: a radically new depreciation procedure designed to reduce uncertainty faced by investors, and reinstitution of the investment credit. The record shows these were successful:

- Unemployment declined steadily to a rate well below 5 percent before the decline was interrupted by the energy crisis last winter.
- Investment increased by 9 percent in 1972 and 13 percent in 1973.
- Industrial production increased by nearly 19 percent in two years, and capacity utilization rose substantially, by 10 percent.

But the need for a high rate of capital formation has not terminated. Now, even more clearly than in 1971, we see the need for additional investment:

- Since 1971, additional demands for capital investment by U.S. industry have been imposed by the drive to achieve improvements in the environment. Just to stand still and employ no more workers or produce

no more goods and services than presently, U.S. industry will have to invest more in order to achieve the required reduction in air and water polluting emissions.

. Although currency revaluation has appreciably improved the competitive position of U.S. industry, the fact remains that, as compared with its major foreign competitors, U.S. industry is less modern. If we are not to fritter away the opportunity to maintain and increase our share of world markets, we must continue to foster a high rate of investment in manufacturing, one of the sectors in which we possess a comparative advantage.

. Having been rudely reminded of the importance of maintaining a higher degree of energy self-sufficiency, particularly in oil, we have launched Project Independence. This will call for vast additional investment in coal mining, coal and oil shale processing plants and a new logistical network to bring these resources to market.

. Many of our basic materials producing industries have found their existing plants inadequate to supply the growth in demand--for domestic use as well as exports. Order backlogs for durable goods are up by more than 40 percent over 1973. Textile, paper and pulp, chemicals and metals producers have been operating at near capacity, with backlogs and bottlenecks, notwithstanding increases in capacity of nearly 13 percent since 1971.

Proposals to cut back ADR.

One of the proposed amendments would lengthen the cost recovery periods permitted under the ADR depreciation system, thus decreasing depreciation deductions. The result would be to discourage investment in new productive capacity, to decrease productivity and to increase inflationary pressures. That would be absolutely the wrong direction in which to move, and today would be absolutely the worst time to move in that wrong direction.

The ADR system specifies an average life for each asset class and permits taxpayers to select an appropriate life within a range above and below that average. The system recognizes the plain fact that there is no way to know today just how many years into the future an asset--particularly a long-lived asset--will be used. At best, we can achieve

rough approximations. In a world of rapidly changing technology and obsolescence, the past is apt to be a poor guide to the future. Latitude for human error and difference of opinion must be allowed. The inescapable fact is that investors must be convinced that they will be able to recover their costs over reasonable periods or they will not invest. The higher the rate of inflation and the longer the life is expected to be, the more critical is this problem.

The ADR system was enacted in 1971 and is a structural reform of great importance in dealing with the tax aspects of investment in machinery and equipment. It permits business to make investment decisions with certainty about the depreciation deductions which will be allowed. In addition it provides for a reasonable degree of uniformity in cost recovery practices within given industries. Neither certainty nor uniformity was available under the previous system. Both facilitate investment in productive capacity.

The ADR system provided flexibility and updated guideline lives which were 10 years old at the time the system was adopted. The lives and the system are under continuing study by the Office of Industrial Economics, set up in the Treasury in 1971. We believe that the system has functioned well, that it provides reasonable cost recovery periods, and that it has encouraged needed modernization and expansion.

Post-enactment experience with ADR data indicates that the amount by which cost recovery periods were shortened was less than half the amount originally expected. Nearly 40 percent of the depreciation base is even now accounted for on a "facts and circumstances" basis, thus indicating that ADR cost recovery periods are in fact in a reasonable middle range. To now lengthen the periods would simply return the bulk of taxpayers to a facts and circumstances system, in which they would be required to haggle with individual revenue agents. Many, if not most, would reach nearly the same result provided by ADR, but would lose the uniformity and certainty which the ADR system now provides. It should be noted in this connection that the first year revenue gain which would follow from the proposed amendment is about $400 million, rather than the $800 million figure cited by proponents of the amendment.

No doubt the ADR system can be improved and no doubt adjustments in particular lives can and will be made. But they should be made after analysis of the experience since 1971 and after consideration of the facts of particular industries. Enactment of arbitrary, blanket changes in the system would be extremely unfortunate and would further cloud the climate for the investment and increased productivity required to dampen inflation.

Phase-out of the investment tax credit.

The other pending proposal is to phase out the investment tax credit as the cost of the qualifying property increases. We believe that proposal to be unsound from both a tax policy and tax administration standpoint. We strongly oppose it.

I have already recounted the increase in investment which followed reinstitution of the credit in 1971. Now, even more clearly than in 1971, we see the growing need for additional investment to increase our basic capacity and to effect changes we all wish to bring about in our environment. To suspend or repeal the investment credit even in part would simply compound the difficulties we must overcome.

The proposal to graft on to the investment credit an exception for property costing in excess of $50,000 or $100,000 is unwise because:

- The exception is not a small business exception. A large business could obtain a full credit on millions of dollars of property so long as each piece of property had a cost basis of $50,000 or less.

- Under the exception there will be an economic incentive for purchase of property which is sold for less than $50,000 and none for purchase of property which is sold for more than $100,000. Why?

- The exception will repeal the investment credit or retain it in a completely haphazard fashion. Some businesses will be unaffected by the repeal of the investment credit because they buy many pieces of equipment each costing less than $50,000. Others will get very little investment credit because most of the equipment they buy costs more than $100,000.

- The exception would be a very difficult rule to administer. What standards are to be used by taxpayers and the IRS in determining whether two pieces of machinery, each costing $50,000 and sitting side-by-side on the factory floor, should be considered as one piece of investment credit property, in which case there is no credit, or as two pieces of investment credit property, in which case there is a $7,000 investment credit?

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As the Treasury has consistently stated, the investment credit is a fiscal device for reducing the cost of capital investment in order to stimulate that investment. It will only serve this function if investors can count on it. If investors believe that Congress will forever be taking it on and off, on some assets or all assets, the investment credit will become too uncertain, investors will not rely on it and the stimulus effect will be greatly diluted or lost entirely.

The investment credit should be left alone.

Proposals to repeal percentage depletion.

We estimate that at current price levels the elimination of percentage depletion for oil and gas would raise revenues $2 billion per year. Revenue effects of various phase-out plans vary with the number of years included in the phase-out and the number and type of exemptions from phase-out. For example, the Ways and Means Committee phase-out plan would produce revenues of $130 million in 1974, $860 million in 1975 and so on, until it reaches $3 billion in 1979, by their staff estimate.

The additional tax revenues will come from tax payments by oil producers and, in the short run, will lessen their profits. In the longer run, however, if we maintain some given degree of self-sufficiency, removal of percentage depletion will result in higher prices to consumers. The principal beneficiaries of the percentage depletion deduction have not been the shareholders of the oil companies, but rather the consumers of oil and gas who have enjoyed larger supplies and lower prices than would otherwise have been the case.

The Treasury is opposed to change in the percentage depletion allowance at this time. Our oil and gas shortage is critical and this is the wrong time to make a fundamental change in the economics of the oil and gas industry by eliminating percentage depletion. The oil and gas industry has relied on percentage depletion for 48 years in making billions of dollars of investments and in formulating billions of dollars of investment plans to move the United States toward energy self-sufficiency. Capital investment that is available to go into oil and gas exploration and development will be discouraged by fundamental tax law changes at this time. The extent of this harm to the industry cannot now be safely predicted and we simply cannot afford to be wrong.

Another consideration is that the adverse effects on capital investment from elimination of percentage depletion may fall more heavily on the independent oil producers than on the major oil companies because the present depletion allowance is worth more to individual taxpayers in brackets above 50 percent than it is to corporations in 48 percent brackets. Many independents rely on that fact in raising capital. (Even if the aggregate present benefits of depletion were translated

dollar for dollar into higher prices, the industry as a whole would be unaffected. However, high bracket producers to whom the deduction was worth more than the price increase would be somewhat disadvantaged, and lower bracket producers to whom the price increase was worth more than the deduction would be somewhat advantaged.)

Elimination of percentage depletion imposes a further penalty on owners of controlled oil. Controlled oil already bears a price penalty of over $4 per barrel compared with the $9 and $10 per barrel prices we pay to Canadian, Indonesian, Middle Eastern and South American suppliers. The removal of percentage depletion would be equivalent to a rollback of 55 cents a barrel to $4.70 from the present average of $5.25. That rollback would apply to roughly two-thirds of the oil produced in the United States and could eliminate some production we are now getting.

Elimination of percentage depletion for natural gas is even more difficult to justify. Most, if not all, of the proposals to eliminate percentage depletion for natural gas recognize that most gas prices are controlled at low levels already by the Federal Power Commission and by long-term gas sale contracts. Therefore, these proposals exempt controlled gas from the depletion phase-out. Our present system of pricing natural gas is illogical and wrong, and widespread gas shortages have been caused as a result. We are certainly not going to encourage the finding of any additional natural gas supplies by eliminating percentage depletion on a major fraction of the gas produced today. The prospect is that such action will further discourage the drilling of gas wells when we already have a major shortage of gas.

You have asked that we address specifically the 3,000 barrel per day exemption from the phase-out of percentage depletion. I have already indicated that we do not favor elimination of percentage depletion. If it is to be eliminated, however, it is difficult to justify nonuniformity in treatment of producers, except perhaps on a transitional basis. Further, to make the 3,000 barrel per day exemption meaningful, there have to be complex rules which prevent the same economic unit from having the benefit of more than one 3,000 barrel per day exemption. These rules can never work perfectly and some people are not penalized who should be and, what is even worse, others who should not be affected at all are penalized by the rules.

In addition, if a barrel of oil is worth $5.20 after tax in the hands of producer A, who has no depletion, but is worth $5.92 after tax to producer B, who still has 15 percent depletion, producer A will tend to sell his oil property to producer B, since the oil is worth more to producer B than A. The price A receives from B tends to reflect the higher value of the oil in the hands of B--i.e., it tends to reflect the 15 percent depletion allowance. The result is that A gets a higher

price and B gets percentage depletion and thus both tend to have the benefit of the 15 percent depletion allowance but a lot of transfers of property for no sound, underlying economic reason will have occurred. We should avoid creating problems like this with the tax laws wherever possible.

In summary, we believe it would be a mistake to eliminate percentage depletion, but if it is to be done, we believe that generous transition periods are an absolute essential.

Foreign mineral income and the foreign tax credit.

Amendments have been proposed which would repeal foreign percentage depletion and the current deduction for foreign intangible drilling costs, require a separate foreign tax credit limitation for foreign mineral income and direct the Secretary of the Treasury to establish criteria to prevent oil royalties from being treated as creditable income taxes.

Although the Administration opposes repeal of percentage depletion for domestic oil and gas, we have proposed that foreign percentage depletion be eliminated, and the Ways and Means Committee has incorporated this proposal in the "Oil and Gas Energy Tax Act of 1974." We have no objection to the Senate acting on this provision independently, although it would seem more appropriate to deal with it in connection with the Energy Tax Act.

We oppose the elimination of the deduction for foreign intangible drilling expenses. Unlike depletion, intangible drilling expenses represent actual current cash outlays. Present law permits current deduction of such expenditures, whether at home or abroad. The proposed amendment would require such expenses to be capitalized and recovered through ordinary depreciation deductions. The present treatment is far simpler and does not make foreign operations more attractive than domestic operations.

On the other hand, we do not believe our tax laws should encourage foreign exploration more than domestic exploration. Net foreign losses can be and have been used to reduce U.S. tax on U.S. source income. A loss recapture provision, recommended by the Administration in April of 1973 and included in the Energy Tax Act, is an effective means of equalizing the tax treatment of domestic and foreign oil production. Under our proposal, foreign losses which are deducted against United States income would be recaptured in later years when foreign income is realized. The mechanism for the recapture would be to reduce the allowable foreign tax credit in those later years. The effect of our proposal would be to prevent the interaction of the United States foreign tax credit and the often somewhat arbitrary tax laws of foreign oil producing countries from unjustifiably reducing United States tax revenue on foreign source oil income.

Another proposed amendment would establish a separate foreign tax credit limitation for foreign taxes imposed on mineral income, including oil production. The objective of this amendment is to prevent a foreign tax credit attributable to mineral income from reducing U. S. taxes on other foreign income.

In February 1974, the Administration proposed the elimination of excess credits arising from foreign taxes on oil production income. We believe that our approach is preferable.

The Energy Tax Act as reported by the Ways and Means Committee contains still another approach to this problem. It would limit the available amount of excess credits attributable to foreign oil production income to 10 percent of the U. S. tax on that income. It would also restrict the use of those excess credits to "foreign oil related income." We believe that our approach is preferable, but we recognize that the issue is complex, and intelligent decisions can be made only after considering all of the ramifications of the problem and the several alternatives.

The last proposed amendment in the mineral area would direct the Secretary of the Treasury to establish criteria to determine what portion, if any, of payments made to foreign countries in connection with oil or gas income is in fact a royalty payment. The effect of characterizing a payment as a royalty rather than a tax is that a royalty is only deductible from gross income while a tax may be creditable.

There is a problem in this area. But the amendment provides no standards for reaching a solution. Many foreign countries which have petroleum reserves have substantial latitude in structuring their tax laws so that payments will qualify as creditable taxes rather than deductible royalties. This latitude also makes it virtually impossible and certainly self-defeating to establish the types of criteria the proposed amendment demands. As soon as criteria were established, those foreign countries would change their tax systems to qualify.

The Administration's February proposal limited the available foreign tax credit on oil production income to the present United States statutory rate. This ensured that the oil companies would not be subjected to double taxation, but also ensured that these foreign levies would not be used to reduce United States tax on other foreign income.

Foreign losses.

The proposed amendment on recapture of foreign losses would reduce the allowable foreign tax credit where a previously incurred loss has reduced United States income. As I mentioned earlier, the Treasury Department made a similar proposal in April of 1973. This spring

the Ways and Means Committee applied this proposal to oil companies in the Energy Tax Act and has tentatively decided in the pending tax reform legislation to extend it to all companies.

Here again we have no objection in principle to the proposed amendment. But we do have various technical problems with the specific language proposed. We are now working on these problems with the Ways and Means Committee, and expect to be working with your Committee in due course.

Income of foreign subsidiaries.

In general, the foreign income of foreign corporations controlled by United States owners is not taxed by the United States until repatriation in the form of dividends. This is an extension of the basic tax principle that shareholders are not taxed on dividends until they receive them. Another proposed amendment would end this system by taxing the shareholders of all U.S. controlled foreign corporations as if they had received the income of the foreign corporations even though it was not distributed to them.

The Treasury Department opposes this approach. We believe it would make our industries less competitive with those of other countries. No other country imposes its tax in such a manner.

A primary effect of the proposed amendment may be to increase the amount of tax paid to foreign countries. Since the parent corporation would be subjected to United States tax on subsidiary's profits, it is likely to cause the subsidiary to remit those profits. As actual dividends, these profits would in most countries be subjected to foreign withholding tax, thereby increasing the foreign tax revenue and increasing the foreign tax credit applied to reduce United States taxes. The after-tax profits could then be returned to the foreign subsidiaries as working capital.

Although we oppose the complete elimination of deferral, we believe there are certain situations where deferral is not justified. In April 1973, the Treasury Department proposed legislation which would eliminate deferral where the foreign subsidiary receives a "tax holiday" from the foreign country as an inducement to locate these or where the domestic parent decides to manufacture abroad products it intends to sell in the United States. We believe these proposals are sufficient to limit unjustified deferral of United States taxation. The Ways and Means Committee is presently considering action in this area and we hope will eventually adopt an approach similar to our April 1973 suggestion.

DISC.

The Domestic International Sales Corporation (DISC) legislation was adopted in late 1971 as an incentive to exporting United States products. It was also designed to encourage the retention and modernization of domestic production facilities and to allow smaller domestic corporations to receive tax benefits equivalent to those available to larger corporations which could locate production facilities abroad. One of the proposed amendments would repeal this legislation.

The Treasury Department opposes elimination of the DISC provisions.

While it is difficult to measure the magnitude of DISC's effect on exports, it was anticipated that its incentive value would be felt only over time as United States manufacturers became more export conscious and the tax benefits of DISC were actually understood and realized. Thus, while there were only approximately 2,000 DISCs by the end of 1972, there are now over 5,000 DISC corporations in existence, many of which are owned by medium or small parent corporations. At the present time, only the relatively incomplete statistics for 1972 are available on the effects of the DISC legislation. However, as the April report issued by the Treasury Department demonstrates, the available information does indicate that DISC did increase the level of United States exports. While the revenue cost was larger than estimated, we believe this was primarily attributable to the unexpectedly large profits realized on exports in 1972.

United States exports have increased drastically in the past two years. However, so have imports, and there is no assurance that the surplus experienced in 1973 will continue. Therefore, we believe it unwise to eliminate this export incentive after so brief a trial period, especially when other industrialized nations are making substantial efforts to increase their share of world export markets. It should be noted that the Ways and Means Committee did not adopt the suggestion of some of its members to repeal DISC in its recent review of the legislation. It did, however, tentatively decide to limit its benefits by excluding agricultural and natural resource exports.

Altogether, the pending amendments, if enacted, would effect a fundamental transformation of many aspects of our existing system of taxation. We must realize that these proposals will have very profound effects on our already highly strained economy. Jobs are at stake. Our ability to control inflation is at stake. It is a time for exceedingly careful deliberation and careful change.

The very basic decisions involved in the pending amendments affect billions of dollars of investment and profits. I have recounted for you above the major surge of investment and new productive

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capacity which followed the Revenue Act of 1971 which enacted ADR and reinstated the investment credit. I could also recount for you the decline in investment following the Revenue Act of 1969, which repealed the investment credit.

Conclusion

In closing I would emphasize that changes in our tax laws such as those discussed with you today should only be made after careful Committee consideration of the full impact they would have on our economy. Satisfactory economic growth depends to a significant extent on public confidence that our system for making major changes in our economic policy will be allowed to work. Let us all work together to restructure our tax system carefully. We must consider all proposals for tax reform fully and fairly and to shape our tax policy in coordination with the long range objectives or our total economic policy. We stand ready and willing to cooperate with you in that effort.

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STATEMENT OF
MR. RICHARD F. LARSEN, DEPUTY ASSISTANT SECRETARY
FOR DEVELOPING NATIONS FINANCE, DEPARTMENT OF THE TREASURY
BEFORE THE FOREIGN OPERATIONS AND GOVERNMENT
INFORMATION SUBCOMMITTEE OF THE
HOUSE COMMITTEE ON GOVERNMENT OPERATIONS
June 6, 1974, at 10:00 A.M.

Mr. Chairman, I am pleased to appear again before your Committee to discuss delinquent international debts and unpaid claims owed to the United States. This hearing is, of course, the latest in series of occasions in which representatives from the Treasury Department have appeared before this Committee to discuss foreign debt problems. As a consequence, you are familiar with the steps we have taken in the last several years, many at the urging of this Committee, to curtail debt arrearage problems. These include:

1.) the implementation of a formal action by the National Advisory Council on International Monetary and Financial Policies providing for the deferral or disapproval of loans to delinquent countries;

2.) the holding of periodic debt review sessions within the framework of the NAC to discuss and coordinate the collection efforts and problems of the various Government agencies; and

3.) the development of a complete reporting system on foreign debts of all maturities and debt arrearages owed to the U.S. Government.

We view our relationship with your Committee on this problem of delinquent debts as one of partnership. We are both dedicated to the same goals - minimization of arrearages on foreign credits extended

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by the U.S. Government. And we are in agreement on the means to that goal - a careful monitoring of the repayment record of debtors, and vigorous pursuit of payment when delinquencies occur.

We welcome this hearing as an opportunity to bring you up to date on the status of the delinquency problem, to address ourselves to those areas where you have specifically requested our views, to offer some thoughts on where we hope to make progress in the months ahead, and to answer your questions.

One area that is of obvious concern to both your Committee and the Treasury Department is the potential adverse impact of the world energy crisis on the debt servicing capacity of countries indebted to the United States. The increased prices of petroleum products, fertilizer, and foodstuffs in international markets will have a significant impact on the debt servicing capacities of many developing countries. This impact, however, varies a great deal among countries. Some developing countries - like Mexico, Bolivia, and Colombia - are virtually self-sufficient in oil and thus to a large extent insulated from the effects of the energy crisis. Others are important sources of other vital raw materials whose prices are increasing rapidly. A third group of more advanced developing countries - like Singapore, Taiwan, and Brazil - have the economic strength to withstand their increased import costs without serious disruption. But there remain a number of countries, particularly those on the Indian subcontinent, in sub-Sahara Africa, and in Latin America which face serious debt-servicing problems.

It is too early to tell exactly how serious the situation of these countries will become. A number of factors are involved - the future price of oil, the amount of concessional assistance to be provided by the OPEC countries, and the future availability of substitute forms of energy - to name only a few. However, it is our opinion that in 1974, at least, few if any developing countries which otherwise would have been able to service their debts will be unable to do so solely because of the increased cost of petroleum, fertilizer, and food. The effect will rather be to speed up the approaching debt problems of those countries already in financial difficulties.

We are responding in numerous ways to the energy crisis. One of our primary efforts has been towards the creation of transitional assistance which will help countries to adjust to increased import costs. The international community has sought to establish mechanisms for both short and longer-term assistance to the developing countries most injured by the energy crisis. An example is the IMF oil facility. There is also a clear need for concessional aid to the poorest countries especially from the oil exporting nations, and some progress in this area has been made. The U.S. has proposed the creation of a $4 billion United Nations Fund. Most importantly, what is needed is a lowering of oil prices and the recognition that vastly inflated raw material prices are to no one's advantage.

Despite the new mechanisms being developed to help poorer countries deal with the energy crisis, debt-servicing problems will probably increase. An NAC working group is seeking to create an early warning system for countries' debt servicing capacity. This system, by a careful review of pertinent economic data, will hopefully permit the early identification of countries with potentially serious problems. The implementation will be more difficult than the idea, since the pieces of data to be analyzed are numerous, and their correlations with future debt servicing capacity are less than perfect. But we are confident that useful predictions can be generated and we intend to implement the system as soon as possible. With an effective early warning system we could more readily help debtors see their problems and take ameliorative action.

Efforts to prevent debt delinquencies must be matched by equal efforts to effect collection of arrearages where these occur. As you know, the individual Government agencies are responsible for the collection of debts owed to them. If their efforts fail, the State Department is brought in to pursue collection through diplomatic channels. We view our role in this process as one of compiling data, focusing agencies' attention on delinquencies, and urging prompt collection. Let me give you an example. You are aware that Treasury, at the urging of this Committee, has begun compiling and publishing data on short-term and accounts receivable arrearages. These arrearages are now being reported to the

NAC and taken into account in passing on loan applications. The Department of Defense is owed significant amounts in arrears on these items. Treasury representatives have on several occasions met with Defense personnel to talk about these delinquency problems, they were fully discussed at the last NAC debt review session in March, and we are actively engaged in a written exchange of ideas with Defense on appropriate steps to be taken. We feel that the Department of Defense is paying increased attention to its short-term and accounts receivable delinquencies, and the statistics indicate that DoD arrearages on these credits as a percentage of principal outstanding declined significantly during calendar year 1973.

Due to the diligence of the agencies and the NAC important results have also been achieved on other delinquencies since I last appeared before this Committee. In late 1973, Egypt began making payments on its dollar credit arrearages, which in June 1973 had totalled $1.1 million. They have now all but been eliminated. Likewise, Ecuador paid in full a long-standing arrearage totalling $650,000 owed to the Department of Defense in February. Nigeria and Uruguay have also recently settled outstanding delinquencies. And the Government of Chile has entered into one debt rescheduling agreement with the U.S. and is negotiating another which will provide for the eventual full payment of its delinquencies to the U.S. During fiscal year 1974 the Government of Chile has made payments of over $35 million on its debts to the U.S.

You have requested specific information on the French FRELOC claim. The Committee is familiar with the background of this matter. It should be emphasized that the FRELOC claim differs from the debt delinquencies we have been discussing in that it does not represent a contractual obligation of the debtor government. Rather it represents the assertion by the U.S. Government of amounts claimed as indemnification for the loss of the use of military facilities in France caused by the French decision in 1966 to require relocation of our NATO forces and equipment. Treasury has indicated to the State Department our interest in a settlement of this matter and we have in the past discussed possible negotiating position and terms of agreement. The French have agreed to negotiate a financial settlement. These negotiations are being handled by the Department of State, and they will provide further information on this matter.

The discussion of FRELOC leads naturally to the subject of this Committee's request that we expand our reporting system to include reports on U.S. claims against foreign countries. You will recall that in a letter of February 1, Secretary Shultz indicated that we would make every effort to see if a useful reporting system for claims can be devised. We are now in the process of preparing draft reporting instructions which we will circulate among the various government agencies and discuss with this Committee before finalizing. Since this process is not completed, we are unable at this point to provide information on the total amount of unpaid

claims owed to the United States. However, we are hopeful that reporting instructions on claims can be made operational by the end of this year.

We can, of course, supply data on the foreign credits outstanding of the U.S. Government, and delinquencies on these credits. As of December 31, 1973, the outstanding principal on post World War II foreign credits of the United States Government totalled $33.9 billion, as compared to $31.9 billion on December 31, 1972. Principal and interest due and unpaid 90 days or more on December 31, 1973, was $753.1 million. This figure has been broken down by country, credit program, and debt maturity in a table which we would like to supply for the record. The total arrearages figure of $753.1 million represents an increase of almost $119 million over the total delinquencies as of the end of 1972. This increase was due mostly to Chile, whose arrearages rose over $86 million during the period.

We have just finished compiling preliminary arrearage data on long-term credits as of March 31 of this year. Delinquencies on long-term credits as of that date stood at $455.7 million. This figure includes over $23 million in delinquencies listed as due from India and Pakistan on rescheduled AID debts. The debts are listed on Treasury's books as delinquencies only because final signings of the bilateral rescheduling agreements have not yet taken place. Subtracting these two arrearages, the figure for March 31, 1974 is $432.6 million. This is $8.7 million below the equivalent for December 31, 1973, of $441.3 million.

In summary, Mr. Chairman, we are pressing ahead in our efforts to prevent delinquencies, to effect collections, and to provide complete, accurate, and rapid reports on the whole broad spectrum of amounts owed the United States Government by foreigners. We are, always, open to your suggestions, and we will be happy to answer your questions.

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

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FOR IMMEDIATE RELEASE June 6, 1974

FEDERAL FINANCING BANK APPROVES
$127 MILLION IN LOANS

Over the past two weeks, the Federal Financing Bank has approved loans totaling $127 million, guaranteed by the Department of Health, Education and Welfare.

They are the first loans to be made by the Bank, which was created last December by Congress to coordinate under a single agency the many federal and federally-assisted borrowing programs.

The Bank purchased from the Student Loan Marketing Association, ("Sallie Mae"), a $100 million 91 day obligation at a rate of 3/8% above the latest Treasury 91 day bill auction rate. That rate was set on Monday, June 3, 1974, at an equivalent bond rate of 8.6%. "Sallie Mae" is a government sponsored private corporation that provides liquidity to lenders participating in the Federal government's Guaranteed Student Loan Program.

Loans amounting to $27 million with maturities as long as 25 years, were also approved for borrowers under the Hill-Burton program for support to community hospitals. The rate was 8 5/8%.

These loans were made much earlier than anticipated to accommodate the program responsibilities of the affected agencies.

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Department of the TREASURY
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FOR IMMEDIATE RELEASE June 7, 1974

TREASURY ISSUES DUMPING FINDING WITH RESPECT TO PICKER STICKS FROM MEXICO

Assistant Secretary of the Treasury David R. Macdonald announced today that he has issued a dumping finding with respect to picker sticks from Mexico. The finding will be published in the Federal Register of June 10, 1974.

On February 7, 1974, the Treasury Department determined that picker sticks from Mexico were being sold, or likely to be sold, at less than fair value within the meaning of the Antidumping Act, 1921, as amended.

On May 6, 1974, 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 picker sticks from Mexico sold, or likely to be sold, at less than fair value within the meaning of the Antidumping Act, 1921, as amended.

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

During the period of January 1, 1973 through December 31, 1973, imports of picker sticks from Mexico were valued at approximately $60,000.

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FOR IMMEDIATE RELEASE June 7, 1974

TREASURY ISSUES COUNTERVAILING DUTY ORDER AGAINST DIE PRESSES FROM ITALY

Assistant Secretary of the Treasury David R. Macdonald announced today the issuance of a countervailing duty order upon imports of die presses from Italy.

This action was taken pursuant to Section 303 of the Tariff Act of 1930 (19 U.S.C. 1303). Under this section the Secretary of the Treasury is required to assess on additional duty equal to the amount of a "bounty or grant" paid or bestowed on merchandise imported into the United States.

The order will be published in the Federal Register of June 10, 1974. Countervailing duties will become effective 30 days after publication in the Customs Bulletin.

Based upon information presently available die presses receive payments of 15.74 lira (2.5¢) per kilogram under Italian Law 639. The date of entry of the merchandise into the United States will be the effective date for conversion purposes.

During the period October 1972 through April 1973, imports of Italian die presses totaled approximately $300,000.

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Department of the TREASURY NEWS
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FOR RELEASE 6:30 P.M. June 10, 1974

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.6 billion of 13-week Treasury bills and for $1.9 billion of 26-week Treasury bills, both series to be issued on June 13, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing September 12,1974		26-week bills maturing December 12, 1974	
	Price	Equivalent Annual Rate	Price	Equivalent Annual Rate
High	97.927 a/	8.201%	95.805	8.298%
Low	97.905	8.288%	95.785	8.337%
Average	97.912	8.260% 1/	95.792	8.324% 1/

a/ Excepting 3 tenders totaling $1,195,000

Tenders at the low price for the 13-week bills were allotted 40%.
Tenders at the low price for the 26-week bills were allotted 83%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 49,130,000	$ 31,025,000	$ 49,250,000	$ 18,845,000
New York	2,945,230,000	2,118,710,000	2,886,590,000	1,580,120,000
Philadelphia	35,715,000	35,480,000	75,425,000	30,805,000
Cleveland	76,325,000	73,905,000	82,800,000	43,050,000
Richmond	53,780,000	31,380,000	39,790,000	20,670,000
Atlanta	40,925,000	38,045,000	48,060,000	24,990,000
Chicago	180,405,000	111,065,000	197,630,000	43,335,000
St. Louis	58,110,000	28,450,000	59,090,000	23,180,000
Minneapolis	24,635,000	11,435,000	24,170,000	5,950,000
Kansas City	40,885,000	31,490,000	38,610,000	30,780,000
Dallas	42,125,000	20,115,000	28,525,000	13,195,000
San Francisco	142,850,000	69,015,000	260,000,000	65,485,000
TOTALS	$3,690,115,000	$2,600,115,000 b/	$3,789,940,000	$1,900,405,000 c/

b/ Includes $ 453,190,000 noncompetitive tenders accepted at average price.
c/ Includes $ 294,055,000 noncompetitive tenders accepted at average price.
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 8.55% for the 13-week bills, and 8.81% for the 26-week bills.

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FOR RELEASE ON DELIVERY JUNE 11, 1974

STATEMENT BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL FINANCE
OF THE
HOUSE BANKING AND CURRENCY COMMITTEE
TUESDAY, JUNE 11, 1974

I am glad to have this opportunity to answer directly the questions and concerns about the proposed Fourth Replenishment of the International Development Association that were raised on the House Floor last January. These issues have now been examined in detail in the Senate and, as you know, the Senate passed its version of the IDA bill two weeks ago by a two-to-one majority.

Before turning to the specific questions, let me say at the outset why I think that the United States cannot afford to reject making this contribution to IDA. In our own interest and in the interest of a stable world economy, we are trying to bring about, through negotiation, extensive reform of the international monetary and trade systems, and to promote a cooperative approach to energy problems. If we are not willing to cooperate in providing a fair share of development finance, our industrialized country negotiating partners will react accordingly in these other areas. Since all of these fields are interrelated, we would pay a high price in our other negotiations if we shirk our fair share in IDA.

All other industrialized nations are in agreement with this new contribution, and U.S. failure to participate would be interpreted correctly as unwillingness, on our part, to bear a fair part of a critical international effort.

Since I have been deeply involved in the energy crisis and our nation's response, I was, and continue to be, keenly aware of the serious threat to our economic well being posed by higher oil prices and our dependency on foreign sources of supply. Nevertheless, when the Administration's proposal on IDA replenishment was presented

to the House of Representatives early this year, I believe -- as I do now -- that the United States, in its own interest, could not afford to withdraw from its role in international cooperation through IDA. Secretary of State Kissinger and Secretary of the Treasury Shultz also had this in mind when they issued a joint statement after the IDA replenishment proposal was voted down by the House last January. At that time they said that "... In this most critical of times for international amity and harmony this action represents a major setback to our efforts of cooperation and to the ability of the U. S. to provide leadership in a world where there is an increasingly serious tendency for nations to believe their best interest lies in going it alone."

I would like to turn now to several specific concerns that arose in the House debate last January.

First and foremost, the timing and appropriateness of a large new contribution for assistance was questioned when our nation was faced with one of the most serious economic crises in its history. We were faced with an oil embargo by Arab countries which plunged us into an energy crisis. The shortage of petroleum was compounded by its soaring costs. The tragic war in the Middle East had grave implications for oil supply and gave rise to great uncertainty in both the developing countries and developed countries alike.

Today, issues which gave the House of Representatives such grave doubts have been largely clarified and resolved. The Arab oil embargo no longer exists. By the efforts of the United States Government -- of which we can be proud -- we have the makings of peace in the Middle East. Domestic shortages of petroleum products are coming close to being eliminated. Higher oil prices do continue to pose serious problems for us and even more for our other industrial trading partners, such as Japan, Germany and England. But this should not be the rationale for not moving ahead now on the IDA. We are attacking the price problem directly -- at home by reducing demand and increasing supply through several actions such as encouraging the leasing of off-shore oil areas. Abroad, we are working with other consumer nations on joint approaches and with OPEC nations to demonstrate to them that their own economic self-interest is founded on a strong world

economy and on being responsible petroleum suppliers at reasonable prices. Just last week, we began our own discussions with Saudi Arabia on improving cooperation on oil both bilaterally and multilaterally.

But for most of the poorest countries, in which the majority of the world's population reside, the problem threatens destitution and starvation, as they not only face the rising costs of energy but of fertilizer and food as well. With few exceptions these poorest nations are struggling to maintain already low per capita incomes. It is therefore more important than ever that the IDA -- which will be out of money this month -- be able to continue its lending operations. We will not, through this vehicle, be meeting the oil bills of these poor countries, but rather maintaining the momentum of a key existing aid program.

A second major area of concern in the House last January was that a contribution to the IDA would be useless or, worse, would only be passed through the less-developed countries to the oil-rich countries to buy petroleum at higher prices. Let the oil-rich pay our share, some contended. It is understandable that the doubts raised by the implications of higher oil prices led the House of Representatives to react negatively to the IDA bill last January.

In answering this question I would like to lay to rest one wrong impression about the use of IDA funds. Neither the IDA funds nor the funds from any of the international development banks go to finance oil imports. These funds are lent for specific development projects. The money goes for such projects as hydroelectric dams, thus broadening the base of the world's energy resoures; for fertilizer plants, to maximize the economic use of natural gas deposits; for roads, railroads, and ports, to facilitate the transport of raw materials; and for semi-manufactured products upon which we in the United States, as well as other industrialized nations, are increasingly dependent for our continued prosperity.

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IDA credits are also made for agriculture to increase the world's food production; and for education and public health, to increase the abilities of people to produce and earn a sustainable living in basic human dignity. That is how these funds are used. And if IDA did not furnish the funds, the majority of projects would simply not go forward because the nations do not have the domestic savings or a strong enough international credit standing to finance them alone.

I should, however, point out that IDA does not finance the whole project. The borrowing nations themselves are requested to make a self-help effort by putting up more than 60% of the total costs from their own budget funds or by locally borrowed funds. The IDA -- like the other development banks -- is an economic catalyst, and a supplier of seed capital upon which a less-developed country grows.

A third question raised in the House last January also showed concern about responsibility of the oil-producing countries with their enormous new revenues. Don't they have a special responsibility toward the less-developed countries to assume an increased share of the cost of economic development assistance, or at least attempt to moderate the disastrous impact higher oil prices have on less-developed countries? The answer, of course, is that they do.

While the concrete commitments have been few thus far, there has been progress and solid evidence that the oil-rich countries will recognize that their new affluence carries with it important responsibilities toward the hardest-hit, less-developed countries.

Oil-producing countries have pledged $3 billion to a special facility in the International Monetary Fund to help countries cope with international price increases; they have also purchased over $600 million of World Bank bonds to permit further development lending, and expect to make a larger amount of such purchases next year. Venezuela is actively negotiating a half-billion-dollar trust fund in the Inter-American Bank. Iran is extending substantial bilateral assistance within the Middle East and Asian regions. Kuwait is expanding its Economic Development Fund from $600 million to $3 billion for worldwide concessional lending, although expansion may be temporarily slowed somewhat because of the Fund's shortage of qualified technical personnel. The framework of a $1 billion plus Islamic Development Bank is now

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being finalized. While virtually all of these resources are being made available on relatively favorable terms, it is clear that continuing emphasis must be placed on the need for resources on truly concessional terms.

But increased economic assistance from oil-producing countries in helping to meet the problems faced by the poorest countries cannot substitute for our own efforts or those of other industrialized nations. No other industrialized nation is cutting back on its IDA contribution, no matter how hard the energy crisis has hit it. A reduction of our support for the IDA and the other multilateral economic assistance efforts would not only aggravate the extremely difficult situation in which many poor nations now find themselves; it would undermine our position that the newly rich oil-producing countries should join in contributing their fair share of international economic assistance.

A fourth point posed in the House concerned the question of whether the United States could afford this new contribution to IDA, particularly in a period of dangerous inflation. Are we not doing too much already? Shouldn't other industrialized nations do more?

As to our affording it, let me put the matter in its proper perspective. Our annual IDA contributions represent only three one-hundredths of one percent of our total product, and only about one-tenth of one percent of our budget. The cost of this assistance to each American is about $1.80 a year, while IDA can make the difference between life and death to large numbers of people in developing countries.

And while inflation is the single greatest economic problem facing the United States and indeed the world, this must be solved by attacking the problem directly. I have pledged to combat inflation with a responsible government spending program, and I mean to carry out that pledge. This does not mean that we should cut programs vital to our own interests. IDA is just such a program and, since the funds would be spent over a period of years beginning in FY 1976, the impact would not affect our current battle with inflation.

Now what are others doing? Other nations have agreed to a reduction in our share in the IDA replenishment to one-third in this replenishment. This was, of course, before the energy

crisis, which as I said, hit most other IDA contributors harder than it did the U. S. Therefore, a share of one-third is fair to the United States. Moreover, the balance of payments effects of our participation in the multilateral institutions as a group has been positive.

While our one-third share of IDA is $1.5 billion out of a total of $4.5 billion, the Fourth IDA Replenishment, unlike earlier IDA replenishments, allows the United States a four-year appropriation period instead of three, and accordingly, the Senate amended the original bill to indicate precisely that our contribution would be $375 million per year for four years beginning in Fiscal Year 1976. In our previous presentation to the Congress, this was not clear. By comparison, our current annual contribution to the IDA is $386 million per year. This is composed of $320 million per year from the Third IDA Replenishment, plus $66 million per year to take into account the changes in the official value of the dollar. The $375 million per year requested here will not be subject to additional payments, even if there were further devaluations of the dollar at a future date. In other words, the maintenance of value provision in past IDA replenishments was eliminated in our international negotiations, in recognition of the strong sentiment in the Congress to avoid additional payments should the value of the dollar change.

These, then are the answers to the criticisms and concerns raised on the House Floor when it considered the original authorizing legislation for the Fourth Replenishment of IDA. And, as I said at the outset, there are good solid positive reasons to go forward with this legislation. This Committee recognized these reasons when it reported out the IDA replenishment legislation last December. Let me simply reiterate here that IDA lends to the poorest of developing countries, that it has proven its effectiveness, and that it is important, not only in its own right, but also as a vital part of the world economic order we are striving to create in the interest of ensuring stability and prosperity for the United States.

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FOR IMMEDIATE RELEASE June 11, 1974

SECRETARY OF THE TREASURY WILLIAM E. SIMONS' RESPONSE AT HOUSE BANKING AND CURRENCY SUBCOMMITTEE HEARING TODAY WHEN ASKED ABOUT U. S. POLICY WITH RESPECT TO DOMESTIC GOLD OWNERSHIP

Today U. S. producers of gold are free to sell it at world market prices. U. S. Citizens are free to buy gold for industrial, artistic, and numismatic collection purposes. For this last purpose, coin collecting, it is now possible to buy gold in the United States in coin form at less than 10% above its bullion value in the world market.

At the appropriate time I believe that the existing restrictions on U. S. citizens' investing in gold in bullion form should be removed. Restrictions on the freedom of U. S. citizens are repugnant to me and should be retained only with clear justification. The principal original justification for the restrictions in the thirties obviously is not our current problem. And permission for U. S. citizens to invest in gold could actually have an appreciable anti-inflationary impact in the U. S. if the change were introduced at a time when it did not contribute to market uncertainty and if the U. S. sold gold from government-held stocks to meet some or all of the new investment demand.

I do not believe, on the other hand, that it would be wise for the Congress to legislate removal of the existing gold restrictions on a certain date. Such legislated inflexibility could hamper the U. S. representatives in negotiations which are underway right now. Such legislation could force removal of the restrictions at a time when the action might happen to exacerbate a disturbed situation either in U. S. markets or in international markets in which we have a vital interest.

The President already has the authority to remove the gold restrictions when the step can be taken without serious disturbance. My own desire is that I will be able to recommend that he do so -- and that he will -- before the end of this year unless there are new damaging developments in economic affairs that indicate that the step should not be taken. I urge you to have sufficient faith to leave to us the choice of a date when the change can be made without potential damage to our economy.

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Department of the TREASURY NEWS
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FOR RELEASE AT 12:15 P.M.
TUESDAY, JUNE 11, 1974

REMARKS OF THE HONORABLE EDGAR R. FIEDLER
ASSISTANT SECRETARY OF THE TREASURY FOR ECONOMIC POLICY
BEFORE THE 11TH ANNUAL FORECASTING CONFERENCE
CO-SPONSORED BY THE CHICAGO CHAPTER OF THE
AMERICAN STATISTICAL ASSOCIATION,
THE COLLEGE OF BUSINESS ADMINISTRATION, UNIVERSITY OF ILLINOIS,
AND THE CHICAGO ASSOCIATION OF COMMERCE AND INDUSTRY
CHICAGO, ILLINOIS
JUNE 11, 1974

ON PRACTICING THAT OLD-TIME RELIGION

Economic policy has a theme song! The song is "That Old-Time Religion." It's not new and it's not especially melodious but, considering what an arcane subject economic policy is, the lyrics are surprisingly descriptive.

In the fight against inflation, the Administration has emphasized farm and energy policies that maximize food and fuel production. It has called for greater fiscal discipline in the form of a move toward a balanced budget. It has applauded the monetary restraint of the Federal Reserve. And it has cited the need for more saving and investment. Certainly all of these reflect the image of "that old-time religion." The Administration has also forsworn gimmicks such as wage and price controls that attack the symptoms of inflation but not its fundamental causes, and this too is consistent with "that old-time religion." Thus, the theme song seems quite appropriate to current economic policy.

However, as with any simple theme or slogan -- no matter how useful they may be in terms of instant public recognition -- there is the danger of oversimplification. For example, "that old-time religion" might be misinterpreted to mean that the Administration will pursue the orthodoxy of a balanced budget with an unswerving theological devotion that ignores the level and direction of unemployment.

That is, of course, not the case. Our purpose is, rather, to bring to economic policy a better balance between the often conflicting goals of full employment and price stability. Through the postwar period, policy has almost always been tilted toward maximizing employment, while paying much less attention to the inflationary consequences. "That old-time religion" will not abandon the employment goal, but will raise the anti-inflation priority to the same level as full employment.

What is Full Employment?

But to state that both goals should have high priority does not solve the central economic issue of how the trade-off between them should be reached. Some years ago, many students of economic policy thought that 4 percent unemployment would provide a fair compromise, i.e., reasonably full employment and reasonable price stability.

More recently, serious questions have been raised about the 4 percent unemployment goal. A variety of changes have taken place in the economy, most of which appear to have raised the unemployment rate that would be associated with an acceptable unemployment-inflation trade-off.

Perhaps the most important of these changes is the shift in the composition of the labor force, which now includes many more persons -- teenagers and working wives, especially -- whose attachment to the workforce is less permanent and who move in and out of jobs more frequently than other workers. This compositional shift has raised the average level of unemployment associated with a given balance of economic demand and capacity.

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Other changes in the economy, such as the improved protection that workers now have against the hardships of unemployment, have moved in the same direction. However, there are also changes that work the opposite way; for example, the occupational and industrial composition of the economy have both moved in the direction of lower unemployment.

Where all this comes out is not easy to say. Some analysts have used calculations based on the shift in the age-sex distribution of the labor force to suggest that the "acceptable" unemployment rate is now about three-quarters of a percentage point higher than in the middle 1950's; if 4 percent was appropriate then, 4 3/4 percent is appropriate now. My own view is that such calculations are dubious,. essentially because they account for changes in only two of the many dimensions of our economy. The most we can say, I believe, is that stimulative fiscal and monetary policies should not endeavor to reduce the unemployment rate as far as was once thought appropriate.

The Different Facets of Full Employment

There is, however, a still more fundamental issue that should be raised about the trade-off between unemployment and inflation. That issue is whether we are even asking the right question. In part, it seems to me the answer is that we are not.

Basically, we think about economic policy as follows: When the economy is weak and inflation is subdued, fiscal and monetary stimulus should be used to increase demand until the economy reaches the limits of its capacity to produce at reasonably stable prices. Our basic error in this is that we almost always think of the limits of economic capacity in terms of the unemployment rate.

But surely this is too narrow a view of the cyclical limits of economic expansion. One only has to review our postwar history to see that our economic booms did not come to an end solely because we reached the limits of expansion

in the labor markets, but for a variety of different reasons. The 1973 expansion, for example, was choked off by a severe shortage of processing capacity for basic materials. In 1966, on the other hand, it was a severe congestion in the financial markets that brought the expansion to a temporary halt; we reached what might be called "financial full employment."

In 1968-69, when the unemployment rate declined to below 3 1/2 percent, it seems clear that the economy reached its cyclical limits primarily in terms of full employment in the labor markets. For the 1955-57 boom, the evidence is mixed: the labor market was obviously under pressure during that period, but so was our capital stock, probably more in the advanced-processing industries than in basic materials.

I do not mean to suggest that there is no correlation between these several facets of capacity utilization; quite clearly there is. When we move toward full employment in terms of the labor market we also move toward full utilization of our capital stock, and of our financial markets. But the evidence is strong, I think, that there is much less than perfect harmony among these measures. At one time, one will be the critical variable in defining the limits of cyclical expansion toward which economic policy should be focussed. At another time, it is a different facet of capacity that will set the limits.

This whole matter is further complicated by two additional factors. First, how far the economy can expand toward its productive limits depends in part on the nature of the expansion, especially on how fast and how well balanced it is. The 1973 expansion, for example, probably took place at a greater speed than would have been ideal. Second, the cyclical limits on expansion are determined in part by what is happening to the economies of other nations. In 1973, all of the industrialized countries experienced boom conditions simultaneously -- in particular, the shortage of processing capacity for basic materials was critical throughout the world -- and this fact placed additional limits on the ability of the American economy to expand.

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I do not know any simple or accurate or satisfactory way to measure where the limits of capacity are under each of these different facets of capacity utilization. I can only suggest that we should take an eclectic and cautious approach to setting economic policy. Furthermore, I feel strongly that it is a serious mistake to focus so narrowly on the unemployment factor alone, as we so often do when thinking about this trade-off.

Certainly it is misleading to measure, as we do now, the potential output of our economy ("Potential GNP" -- see pages 61 and 95 of Business Conditions Digest) only in terms of employment and labor productivity. That sort of measurement suggests that we are satisfied with a "production function" for our economy based solely on labor input. The postwar experience, however, tells us how important it is to take explicit account of a variety of other inputs, including our capital stock, materials, and perhaps even financial resources.

What Course for Economic Policy?

The present economic situation provides a particularly telling illustration of how an exclusive focus on unemployment can be highly misleading in formulating policy. The recent weakness in economic activity has raised the unemployment rate from around 4 3/4 percent last summer to about 5 1/4 percent now. This has suggested to some that fiscal and monetary policy should be eased to stimulate the economy. Indeed, the Senate is now debating a bill to cut taxes by some $5-7 billion for just that purpose.

The rise in unemployment, however, is not a valid signal that economic demand is now falling short of our capacity to produce. What happened is that the energy crisis, which was the prime source of the economic weakness, brought about a simultaneous decline in both demand and capacity. The concern about energy availability and the rise in prices sharply reduced consumer demand for large cars, recreational vehicles, tourism, utility services and the like. Simultaneously, the same forces neutralized some of the available capacity to produce these goods and services -- at least temporarily. For example, some of our capacity to produce large cars is of no value, as long as consumers are not in the mood to buy them.

Meanwhile, in the rest of the economy -- outside of those areas directly impacted by the energy crisis, and except also for housing -- activity has continued at virtually flat-out, full capacity. Most basic materials have remained in short supply and unfilled order backlogs have continued to grow. Both are clear indications that excess demand is still the predominant problem of businessmen -- not a lack of sales or new orders. Similarly, inflationary pressures have continued to be very heavy.

Accordingly, a tax cut is not the right medicine for the present situation. Putting more money into the hands of consumers would do little to increase production or employment. All it would do is add to the already strong pressures on prices.

For the moment, then, there is not much that can be done through general fiscal and monetary policies to reduce unemployment. The half-point rise in the unemployment rate -- with perhaps a bit more to come -- is an unwelcome but unavoidable result of the energy crisis.

As we look ahead to the later months of 1974 and to 1975, the most reasonable expectations are that the economy and employment will experience renewed growth. We are hopeful that this growth will be vigorous enough to cut gradually into the unemployment rate. We are hopeful also that this growth will be sufficiently well balanced so that the oncoming increases in productive capacity will accommodate the expansion, while also permitting a gradual subsidence of inflationary pressures.

But this is a complex, unwieldy and amorphous process, fraught with risk. Difficulties abound. As mentioned earlier, there are no fully satisfactory measures for the different facets of capacity utilization to indicate where the limits of cyclical expansion are likely to be met. Neither is there any useful way to know just how, in line with the precepts of that old-time religion, the proper balance is to be struck between the employment and inflation goals. Policy makers deserve our sympathy.

On the other hand, nobody ever promised them a rose garden!

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FOR IMMEDIATE RELEASE June 11, 1974

AMOUNT OF TREASURY BILLS OFFERED IN WEEKLY AUCTIONS

In today's announcement of the weekly auction of Treasury bills to be held on June 17, the amount of bills offered is continued at $200 million more than the amount that is maturing.

The total of bills offered is being continued at $4.5 billion because a foreign central bank will be bidding for $200 million of bills in that auction and in each of the following nine weekly auctions.

The purpose of the bank's entry into the bill auctions is to achieve a better balance between its holdings of special Treasury issues and marketable Treasury issues.

Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

FOR IMMEDIATE RELEASE June 11, 1974

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $4,500,000,000, or thereabouts, to be issued June 20, 1974, as follows:

91-day bills (to maturity date) in the amount of $2,600,000,000, or thereabouts, representing an additional amount of bills dated March 21, 1974, and to mature September 19, 1974 (CUSIP No. 912793 UQ7), originally issued in the amount of $1,801,875,000 (an additional $100,065,000 was issued on June 5, 1974), the additional and original bills to be freely interchangeable.

182-day bills for $1,900,000,000, or thereabouts, to be dated June 20, 1974, and to mature December 19, 1974 (CUSIP No. 912793 VD5).

The bills will be issued for cash and in exchange for Treasury bills maturing June 20, 1974, outstanding in the amount of $4,300,010,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,611,940,000. These accounts may exchange bills they hold for the bills now being offered at the average prices of accepted tenders.

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, June 17, 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 and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions

(OVER)

with respect to Government securities and borrowings thereon may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on June 20, 1974, in cash or other immediately available funds or in a like face amount of Treasury bills maturing June 20, 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

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FOR RELEASE ON DELIVERY

STATEMENT OF THE HONORABLE PAUL A. VOLCKER
THE UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
BEFORE THE SENATE COMMITTEE ON FINANCE
ON EXTENSION OF THE DEBT LIMIT
WEDNESDAY, JUNE 12, 1974, AT 10:00 AM

Mr. Chairman and Members of the Committee:

It is a pleasure for me to appear before this Committee today to discuss the current economic climate and our latest revisions of the Federal budget. Secretary Simon has asked me to emphasize that only a firm commitment to a meeting of the International Monetary Fund's Committee of 20 today and tomorrow -- a meeting that will consolidate negotiations on international financial agreements that we have been working on for the past two years -- kept him from being present in person.

The need once again for legislation on the debt limit is the occasion for this meeting with you, and I must note that we are coming very close once again to the expiration of the current temporary ceiling.

As you know, the House has enacted H.R. 14832, which provides a temporary limit of $495 billion through March 31, 1975.

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This is a tight ceiling, $10 billion below the temporary ceiling we requested to cover the Federal Government's financing requirements through fiscal year 1975. Even so, this necessary legislation to increase the temporary debt limit encountered resistance in the House, and it was necessary for the Speaker to cast a tie-breaking vote on this legislation. We interpret the vote in the House as an expression of concern regarding inflation, the size of the Federal budget, and the Government's deficit spending, concerns that we share.

Inflation is the number one domestic problem facing this Nation. Part of the explanation for our double digit rate of inflation now, lies in the Federal deficits which have occurred in 14 of the past 15 years. As Secretary Simon has said on a number of occasions, we believe that we must find ways to trim the budget deficit in the coming fiscal year and aim at a balanced budget in fiscal year 1976. The Administration and the Congress are on notice that this inflation problem must be solved.

The time has come when the Congress and the Administration must find better procedures for examining the budget and keeping it in line with our economic situation. In this regard,

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the Administration firmly supports legislation, which has just been reported by the Conference Committee, that would set up a mechanism for the Congress to look at the Federal budget as a whole -- receipts and outlays -- and set Federal fiscal priorities within overall budget aggregates that will bring us nearer to achieving our economic policy goals.

For years, people have thought of the debt limit as a substitute for positive budget control. But the debt limit is clearly not up to that. Positive budget control is needed at the beginning of the budget process when receipts are estimated and funds are appropriated, rather than at the end as in the case of the debt limit.

Several Secretaries of the Treasury have discussed the fatal flaw in the debt limit -- that it is the tail rather than the head of budget control efforts. In fact, the necessity for legislation periodically on the debt limit has sometimes had a perverse impact. Since the debt limit is "must" legislation, it has been used as a vehicle to pass other, often unrelated legislation, much of which has added to outlays. Currently, of course, there are pressures to append tax reduction to this debt limit bill, a move that we believe could only aggravate

the Nation's inflation problem.

The Administration is firmly opposed to any tax reduction at this time, even if it were enacted along with so-called reform measures intended to offset the revenue loss. The issues are complex, as you know, but one of the things we need at this time is to encourage investment in new capacity to meet our energy requirements, to increase food output, and generally to strengthen the economy. Even if personal income tax reduction were offset in terms of revenue by increases in other taxation, the package would tend to increase consumption and reduce investment. This would exacerbate current pressures on the Nation's productive capacity and contribute to continued inflation.

In the absence of final passage of debt limit legislation, the $475.7 billion debt limit will revert to its permanent ceiling of $400 billion on July 1. Since the debt subject to limit on that date will exceed the permanent limit by about $75 billion -- more or less depending on the exact level of the cash balance -- congressional action is necessary to maintain the borrowing authority and the credit of the U.S. Government.

Attached to my statement are the usual tables. The first of these shows actual operating balances and debt subject to limit through May 31 and estimated debt subject to limit at the end of June this year. Table 2 extends these estimates through fiscal year 1975, based on the conventional assumptions of a $6 billion cash balance and a $3 billion margin for contingencies. In addition, we have shown a $3 billion contingency item beginning in August to cover Treasury loans to the Federal Home Loan Bank System, reflecting housing measures recently announced by the President.

The revised budget figures for fiscal years 1974 and 1975, which underly these estimates, are presented in Table 3. The expenditure figures will be discussed in detail by the Director of the Office of Management and Budget. Changes in revenue estimates are shown in Tables 4 and 5. Apart from the effects of the action taken by the House Ways and Means Committee with respect to taxation of the petroleum industry, the principal changes reflect some shortfall of corporate income tax receipts from earlier estimates, despite the fact that profits themselves appear to be running up to the assumptions that underly the budget projections.

As this Committee is well aware, changes in the public debt are related more directly to the surplus or deficit in the Federal funds than in the unified budget surplus or deficit. The current relationships between these budgetary concepts is shown in Table 3.

In summary, the unified budget is now projected to be in deficit by $3.5 billion in fiscal 1974, a somewhat smaller figure than projected in February. In fiscal 1975, the unified budget deficit is projected at $11.4 billion. In contrast the Federal funds budget, which includes receipts and expenditures handled by the Government as "owner," is now projected to be in deficit by $17-1/2 billion in fiscal 1974 and this deficit will increase to nearly $20 billion in fiscal 1975.

This Federal funds deficit results from the fact that large expenditures are made from the Federal funds into the trust funds, and not to the public. As a result of these intra-governmental payments, the trust funds will have a surplus of $8.5 billion in fiscal year 1975. Since we are required to invest this trust fund surplus in Government securities, the increase in the public debt during fiscal year 1975 will far exceed the unified budget deficit.

I should note that the $495 billion debt ceiling enacted by the House extends only through March, and does not provide leeway through that date for the usual $3 billion contingency margin or the $3 billion allowance requested to provide for Federal Home Loan Bank borrowing from the Treasury under the new housing program.

I am not requesting restoration of the $10 billion of borrowing authority that the House cut from our request or a longer period, even though the tight limit could well create some difficulties in financing all programs, including the housing program, and further action will be needed before the end of the fiscal year. I would note that an error of only 1 percent in <u>either</u> outlays or receipts amounts to approximately $3 billion, the whole amount of the usual contingency allowance.

The fact that there was no contingency allowance in the $475.7 billion temporary debt ceiling that was enacted in December and expires at the end of this month has created problems in managing the Treasury's cash position economically and effectively. We felt obliged to operate with an unduly low cash balance in the first part of April and again in mid-June -- dropping to about $2 billion, enough to cover

expenditures for only one and a half working days -- in part because of a debt limit problem we anticipated would develop. Our projections show that we will remain under the debt limit at the end of June only by holding our cash balance to a lower figure than would otherwise be desirable in light of the fact that both July and August are deficit months.

In another area of financial management, the Treasury has for some months been studying whether changes should be made in its tax and loan account system. Under this system, which has been in effect since World War I, certain taxes are paid into Treasury tax and loan accounts in commercial banks. The Treasury then calls the money out of these accounts as it is needed for disbursements, thus avoiding disruptive effects on the money market that Treasury operations would otherwise cause.

In view of the recent high levels of interest rates, the Treasury had become concerned that the imputed earnings value of these deposits had become considerably greater than the value of the services banks perform for the Government. Our study had revealed that this is so, and we are now in the process of deciding how the value can best be recouped, bearing in mind that it must be done without upsetting the money market or

delaying tax collections. It is possible that we will need to propose that we be given a limited authority to invest a portion of our operating balances to improve the efficiency of our cash management, an authority which we now lack. We will be publishing our report shortly, making our conclusions known to the Congress and the public.

In conclusion, I would urge upon the Congress one further point. Great uncertainty and agonizing problems for the Administration and the Congress have been created on more than one occasion in recent years because of difficulties in achieving timely enactment of a new debt limit, in part because of the addition of unrelated and highly controversial provisions to this necessary legislation. I am most strongly convinced that review of the debt limit and these hearings can be an occasion for orderly review by this Committee of the financing of the Federal Government, and its relationship to economic developments. However, this necessary and desirable process should not be permitted to threaten, as it sometimes has, a financial crisis for our Government as a byproduct of controversy over other measures.

Tables I, II, III, IV & V

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TABLE I

PUBLIC DEBT SUBJECT TO LIMITATION
FISCAL YEAR 1974
Based on Estimated Budget Outlays of
$269.5 Billion and Receipts of $266.0 Billion
($ Billions)

	Operating Cash Balance	Public Debt Subject to Limitation
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. 30	4.7	465.0
Dec. 31	10.4	470.8
1974		
Jan. 31	10.5	469.1
Feb. 28	7.7	471.6
Mar. 31	8.4	475.4
Apr. 30	11.5	472.9
May 31	6.4	475.6
	ESTIMATED	
June 30	6	474

Office of the Fiscal Assistant Secretary June 12, 1974

PUBLIC DEBT SUBJECT TO LIMITATION
FISCAL YEAR 1975
Based on Estimated Budget Outlays of $305.4 Billion and Receipts of $294.0 Billion
($ Billions)

	Operating Cash Balance	Public Debt Subject to Limitation	With $3 billion Margin for Contingencies	With Special Federal Home Loan Bank Program 1/
1974				
June 30	$6	$474	$477	$477
July 31	6	478	481	481
Aug. 31	6	484	487	490
Sept. 30	6	480	483	486
Oct. 31	6	482	485	488
Nov. 30	6	486	489	492
Dec. 31	6	488	491	494
1975				
Jan. 31	6	486	489	492
Feb. 28	6	492	495	498
Mar. 31	6	495	498	501
Apr. 30	6	492	495	498
May 31	6	499	502	505
June 30	6	494	497	500

1/ Not included in outlay assumption of $305.4 billion.

Office of the Fiscal Assistant Secretary

June 12, 1974

TABLE III

BUDGET SUMMARY
($ Billions)

	1974	1975
Receipts:		
Federal Funds	$181.8	$201.4
Trust Funds	105.3	116.8
Inter-Fund transactions ...	21.1	24.2
Total budget receipts ...	266.0	294.0
Outlays:		
Federal Funds	199.5	221.3
Trust Funds	91.2	108.3
Inter-Fund transactions ...	21.1	24.2
Total budget outlays	269.5	305.4
Surplus or Deficit (-):		
Federal Funds	-17.7	-19.9
Trust Funds	14.1	8.5
Total budget	- 3.5	-11.4

Detail may not add to totals due to rounding.

June 12, 1974

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TABLE IV

Comparison of Fiscal Year 1974 Receipts as Estimated in January and May 1974

($ billions)

	January 1974 budget	Change to May 1974: Economic & reestimate	Legislation	Total	May 1974 estimate
Individual income tax	118.0	--	--	--	118.0
Corporation income tax	43.0	-2.3	-1.0	-3.3	39.7
Employment taxes and contributions	67.7	-1.2	--	-1.2	66.4
Unemployment insurance	6.2	+0.7	--	+0.7	6.9
Contributions for other insurance and retirement	4.0	--	--	--	4.0
Excise taxes	17.1	+0.1	--	+0.1	17.2
Estate and gift taxes	5.4	-0.3	--	-0.3	5.1
Customs duties	3.5	-0.1	--	-0.1	3.4
Miscellaneous receipts	5.0	+0.3	-0.2	+0.1	5.2
Total budget receipts	270.0	-2.8	-1.2	-4.0	266.0
Underlying Income Assumptions Calendar Year 1973					
Gross national product	1288				1289
Personal income	1035				1035
Corporate profits before tax	126				126

Office of the Secretary of the Treasury
Office of Tax Analysis

May 2, 1974

Note: Figures are rounded and may not necessarily add to totals.

TABLE V

Comparison of Fiscal Year 1975 Receipts as Estimated in January and May 1974

($ billions)

	January 1974 budget	Change to May 1974 estimate: Economic & reestimate	Legislation	Total	May 19 esti
Individual income tax	129.0	+1.5	+0.5	+2.0	131.
Corporation income tax	48.0	-1.8	-1.7	-3.5	44.
Employment taxes and contributions .	75.3	-0.2	--	-0.2	75.
Unemployment insurance	6.0	+0.6	--	+0.6	6.
Contributions for other insurance and retirement	4.3	+0.1	--	+0.1	4.
Excise taxes	17.4	-0.1	--	-0.1	17.
Estate and gift taxes	6.0	-0.4	--	-0.4	5.
Customs duties	3.8	-0.1	--	-0.1	3.
Miscellaneous receipts	5.2	+0.4	+0.2	+0.6	5.
Total budget receipts	295.0	--	-1.0	-1.0	294.

Underlying Income Assumptions
Calendar Year 1974

	January 1974 budget	May
Gross national product	1390	1401
Personal income	1135	1142
Corporate profits before tax	124	134

Office of the Secretary of the Treasury
Office of Tax Analysis

May 9, 1974

Note: Figures are rounded and may not necessarily add to totals.

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

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FOR RELEASE 10:00 A.M. THURSDAY, JUNE 13, 1974

STATEMENT OF THE HONORABLE DAVID R. MACDONALD
ASSISTANT SECRETARY FOR ENFORCEMENT, OPERATIONS
AND TARIFF AFFAIRS
DEPARTMENT OF THE TREASURY
BEFORE
THE SUBCOMMITTEE ON FOREIGN OPERATIONS AND
GOVERNMENT INFORMATION
OF THE
COMMITTEE ON GOVERNMENT OPERATIONS
ON
POLICIES AND PRACTICES OF THE TREASURY DEPARTMENT
RELATING TO TELEPHONE MONITORING AND
OTHER SURVEILLANCE PROCEDURES

JUNE 13, 1974
10:00 A.M., EDT

Mr. Chairman and Members of the Subcommittee:

My name is David R. Macdonald, Assistant Secretary of the Treasury for Enforcement, Operations and Tariff Affairs. Accompanying me today are Mr. J. Robert McBrien of my staff and several representatives of other components of the Treasury Department: Mr. William A. Magee, Jr., Assistant Commissioner of Customs for Security and Audit; Mr. Douglas A. McCombs, Senior Special Agent, Special Investigations Branch, Office of Investigations, U. S. Customs Service; Mr. William J. Hulihan, Director, Internal Security Division,

Office of the Assistant Commissioner (Inspection), Internal Revenue Service; and Mr. Robert R. Snow, Special Agent-in-Charge, Special Investigations and Security Division, Office of Investigations, U. S. Secret Service.

I am pleased to report to you today on the policies and practices of the Treasury Department relating to polygraphs, psychological stress evaluators, telephone monitoring and other surveillance procedures.

In November of 1973, the Treasury Department submitted to the General Accounting Office a report requested on behalf of this Subcommittee concerning Treasury's use of polygraphs, psychological stress evaluators, and telephone monitoring and surveillance procedures. We have submitted for the record today information which updates several of the questions previously answered. I believe these materials clearly indicate that the Treasury Department is not engaged in "snooping" on its employees or in "peering over the shoulder" of the American people. While the Treasury Department believes that its present procedures and practices are reasonable, we are, nonetheless, taking the precaution of a careful scrutiny of our rules and operations; and we will institute whatever new procedures are needed and authorized by law.

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As the report to GAO and our current information indicate, we have eliminated from Treasury those transmitter cut-off devices which are not needed to screen excessive background noise. That leaves only ten operative cut-off devices remaining of the 108 we reported in September, 1970. All of the ten operative transmitter cut-off devices are needed and used for purposes other than monitoring. Some cut-off devices have been rendered inoperative, but have not yet been physically removed from the premises.

Personnel & Administrative Procedures of the Treasury Department

In reviewing your Subcommittee's 1970 report, Mr. Chairman, and the questionnaire submitted to us by the General Accounting Office, I noted that emphasis appeared to be placed upon the utilization of polygraph examinations or other mechanical evaluations in connection with the testing of Treasury employees concerning their character, fitness and stability. As our response to GAO points out, the Treasury Department is not using polygraph devices or psychological stress evaluators to measure the character and fitness of its employees, and we have no intention of doing so.

Nor does the Treasury Department use surveillance or monitoring practices in connection with its administrative functions, unless the Taxpayer Service Program of the Internal Revenue Service could be deemed to be such a practice.

The Taxpayer Service Program of the IRS involves telephonic tax advice given by IRS service representatives to thousands of taxpayers. These service representatives are told in advance that their advice will, from time to time, be monitored by supervisors, in order to assure accuracy, completeness and courtesy. This is an instance where with the use of monitoring equipment the employee's advice to taxpayers can be judged by a supervisor. It balances the great importance of assuring accurate, complete and courteous tax advice to our citizens with fundamental fairness and respect for employees. We believe that the foreknowledge of and consent to the fact that their calls will be periodically audited gives to the taxpayer service personnel of the Internal Revenue Service an adequate opportunity to consider whether they desire to work at a task which demands such high quality and uniform advice as tax counselling for millions of Americans.

Criminal Enforcement Operations

As you are aware, the Treasury Department, through the Secret Service, has the responsibility for protecting the President, the Vice President, and other important functionaries against physical violence. The Secret Service also is the vehicle through which Treasury is charged with protecting the integrity and confidence of the Nation's currency by suppressing counterfeiting and forgery of Government checks. Through the IRS, Treasury is required to enforce the Nation's revenue raising laws, in order to assure that non-filers and fraudulent filers of income tax returns are discovered and prosecuted. Through the Customs Service and the Alcohol, Tobacco and Firearms Bureau, smugglers, illicit still operators, and illegal dealers and handlers of firearms are brought to justice by Treasury enforcement personnel.

In connection with these enforcement activities, monitoring and surveillance practices conforming to legal requirements are employed and polygraph tests are administered. I should add that psychological stress evaluators are not used by any branch of the Treasury Department in enforcement functions just as they are not used in our administrative operations.

Fifty-seven polygraph tests were administered by Treasury enforcement agencies in FY 1973 and approximately 46 through May in FY 1974. Most of these tests have been administered by the Secret Service in connection with investigations of counterfeiting cases. In all cases, the polygraph is used by Treasury enforcement agencies with the consent of a suspect or informant as an aid in evaluating information developed as part of a criminal investigation. It is used in those cases where other circumstances indicate it may have some value to the investigation. No individual is ever compelled to subject himself to polygraph examination.

There were in calendar year 1973 approximately 1059 cases in which monitoring of conversations occurred in connection with criminal investigations by various enforcement operations of the Treasury Department. Through May, 1974, there have been an estimated 240 such cases. Monitoring is used when believed to be necessary and only under standards and procedures which conform to the current state of the law. Of the 1059 monitorings in 1973, four cases of court-ordered surveillance of communications were conducted pursuant to Title III of the Omnibus Crime Control and Safe Streets Act of 1968, and the remainder were consensual monitorings.

We at Treasury have committed ourselves to instituting periodic reporting procedures for those monitoring practices engaged in by enforcement components of the Treasury Department. We will continue to use these periodic check mechanisms to help evaluate the need for monitoring and the success of each type. Where a procedure does not measure up to the standards of providing a genuine operating need for Treasury, it will be improved or eliminated. Our goal is to provide the American people with a professional quality of both service and law enforcement which is simultaneously effective and considerate of human rights. In order to do this, we must not treat cavalierly or otherwise abuse the rights of either our citizens or our employees. That is the combined and balanced standard of integrity and effectiveness that we have set for ourselves and which we believe we are achieving.

The few changes since our rather extensive report of last November are described in the materials submitted for the record. I will be pleased to answer any questions you may have.

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

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MEMORANDUM FOR THE PRESS JUNE 12, 1974

A TREASURY SPOKESMAN TODAY MADE THE FOLLOWING COMMENTS:

(1) IN THE TREASURY'S VIEW, THE FINANCE MINISTERS ARE MAKING USEFUL PROGRESS TOWARD THE TWIN OBJECTIVES OF AGREEING ON PROCEDURAL STEPS TO PHASE GOLD OUT OF A CENTRAL ROLE IN THE MONETARY SYSTEM AND AT THE SAME TIME PERMIT IT TO BE MOBILIZED WHEN NEEDED BY COUNTRIES IN BALANCE OF PAYMENT DIFFICULTIES. DISCUSSIONS ALONG THESE LINES ARE CONTINUING.

(2) AMONG THE POSSIBILITIES, THE MINISTERS AGREED IN PRINCIPAL THAT GOLD COULD BE USED AS COLLATERAL FOR INTERNATIONAL BORROWING. (N.B.: AS IN THE CASE OF ALL LOANS, THIS PRESUMES THAT THE LENDER WOULD SET THE VALUE ON COLLATERAL PLEDGED, AND THEREFORE SUCH A PLAN WOULD NOT NECESSARILY ENVISAGE VALUING GOLD AT A MARKET-RELATED PRICE.)

TREASURY HAS NO FURTHER COMMENTS REGARDING ANY DISCUSSIONS THAT MAY HAVE TAKEN PLACE AT THE INFORMAL GROUP OF 10 DINNER THAT WAS HELD ON JUNE 11, 1974.

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

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FOR IMMEDIATE RELEASE June 13, 1974

TREASURY ANNOUNCES ACTIONS ON THREE INVESTIGATIONS UNDER THE ANTIDUMPING ACT

Assistant Secretary of the Treasury, David R. Macdonald, announced today actions on three investigations under the Antidumping Act of 1921, as amended.

In the first case, a modification of a dumping finding is being issued; in the second case, there is a final discontinuance of the antidumping investigation; and in the third case, there is an antidumping proceeding notice being issued. Notice of these decisions will appear in the Federal Register of Friday, June 14, 1974.

In the first case, Assistant Secretary Macdonald announced a modification of the dumping finding on ceramic wall tile from the United Kingdom. For the reasons stated in the "Notice of Tentative Determination to Modify or Revoke Dumping Finding" published on March 26, 1974, ceramic wall tile from the United Kingdom is no longer being, nor is it likely to be, sold in the United States at less than fair value by Pilkington's Tiles Sales, Ltd. During calendar year 1973, imports of ceramic wall tile from the United Kingdom were valued at approximately $3.7 million.

In the second case, the Department announced a final discontinuance of the antidumping investigation on photo albums from Canada. On April 15, 1974, the Treasury published a tentative discontinuance notice after the investigation showed minimal margins in terms of the volume of export involved, and the foreign manufacturer offered assurances that there would be no further sales at less than fair value to the United States. This notice also invited interested persons to submit written views or request an opportunity to submit their views orally. No submissions or requests were received. During calendar year 1973, imports of photo albums from Canada were valued at roughly $440,000.

In the third case, the Department announced the initiation of an antidumping investigation on imports of electric golf cars from Poland. Electric golf cars are designed to transport golfers on golf courses, and to a lesser extent to provide transportation within large

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manufacturing complexes. The announcement followed a summary investigation 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 prices of such or similar merchandise sold for home market consumption in a country not having a controlled economy. During calendar year 1973, imports of electric golf cars from Poland were valued at approximately $2.4 million.

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

NEWS

TELEPHONE 634-5248

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STATEMENT OF
GRAHAM W. WATT
DIRECTOR, OFFICE OF REVENUE SHARING

Before the
Intergovernmental Relations Subcommittee

of the
SENATE COMMITTEE ON GOVERNMENT OPERATIONS

June 4, 1974

Mr. Chairman and Members of the Committee:

The Office of Revenue Sharing welcomes this opportunity to review with your Committee the implementation and operation of General Revenue Sharing since it was enacted nineteen months ago.

It is particularly significant that this Committee - long known for its strong interest in helping to make government at all levels work effectively and well - exercise the first Congressional oversight of Revenue Sharing. We share a common objective and a like commitment to the sustenance and improvement of our American system of governance.

My statement reports on the implementation of Title I of the State and Local Fiscal Assistance Act of 1972. It affords an accounting of our administration

of the new General Revenue Sharing Program, and it discusses some of the significant impacts upon government and governance which already are emerging into view.

Before getting into specifics, I would like to provide a general overview of the implementation and operation of the revenue sharing program, and bring to your attention some of the activities that will be yielding results of interest to you in the not too distant future.

The Treasury Department began vigorous implementation of the Act when it was signed in October, 1972. By December, the first payments had been made to over 38,000 State and local governments. Because of the urgency attached to making those first payments, we ran initial program operation in parallel with program development and implementation.

Today, I am glad to tell you that action has been taken to implement every provision of Title I of the State and Local Fiscal Assistance Act of 1972, and the program is now operating on the normal cycle envisioned in the Act with payments made each quarter to virtually every one of the State, county and municipal governments in the United States as well as to Indian tribes and Alaskan villages.

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The normal revenue sharing cycle is related to the Federal fiscal year. About February of each year, the Office of Revenue Sharing obtains, principally from the Bureau of the Census, the updated data that is to be used to calculate each government's share of the revenue sharing appropriation for the forthcoming year. We then review with each State and local government the data elements that have been received and, in cooperation with the Census Bureau, make any corrections that are needed to be sure that the data is accurate. In April, we calculate the amounts to be paid during the coming year and we notify each government of its expected amount: at the same time, we provide them with their Planned Use Report form to complete, publish in a local newspaper and return to the Office of Revenue Sharing. At the end of June, each government is sent the form on which to report the way they actually used their revenue sharing funds in the fiscal year ending June 30th. After these two reports have been received the Office of Revenue Sharing makes the first quarterly payment for the new fiscal year in the first week of October.

During the year, we ordinarily find that some data items were not accurate even after the extensive verification and editing process that we use. This

may be because of delayed information as to municipal mergers or consolidations, or it may simply be because an error slipped through the system. Corrections in the data are accumulated during the year and, just before beginning the cycle for the following fiscal year we use the completely corrected data to make a final allocation for the current fiscal year. If a government, based on the final corrected data, should receive more money than it actually has been paid, we add the difference to the amount it will receive in the upcoming fiscal year. Similarly, if payments actually have been too high, we make a compensating deduction from the amount to be paid in the next year.

There were, of course, some rough spots along the way as we sought to achieve the normal cycle called for in the Act. We were very fortunate to have excellent cooperation and assistance from the Congress, from within the Administration and especially from the Governors and the local officials and their associations who helped to work out the initial difficulties that did arise. Most of the difficulties had to do with the natural kinds of questions that officials of recipient governments had in the early days when relatively little information about the new program was available. This included uncertainty about how

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to account for the funds, how to comply with the reporting requirements in the Act, questions about the proper uses of funds and so on. We now have a series of publications and a technical assistance program to help keep the more than 100,000 involved government officials across the country up to date as to their revenue sharing responsibilities and how to carry them out.

Perhaps the one aspect of the revenue sharing program that has been most perplexing to local governments is the fact that it is impractical for them to actually calculate the amount of their own entitlement. This is so because the revenue sharing formulas divide a fixed national amount among the States and then among the local governments within each State area. These allocations are determined by certain data for each government relative to similar data for other governments.

We have, I believe, found a practical method of overcoming this difficulty by publishing all data, all allocations and all payments for all governments, so that even though an individual government cannot reasonably accomplish all the computations to calculate its share, it can review its own share and the amount of the share of any other government in which it may be interested.

Even more important, we are now able to make the calculations and provide the information to government recipients in April of each year, five months in advance of the first quarterly payment of the annual amount in October.

This practice of complete public availability of data and payments information for all governments is part of our rigorous practice of public accountability which, we believe, is of real value in establishing the long-term credibility of the program and of its administration.

The Revenue Sharing Act includes relatively few, but nevertheless important restrictions and requirements as to the uses of funds by recipient governments. Our regulations have been kept short. They are designed to implement the Act and not to create requirements that go beyond those that the Congress provided.

Evidence available to us thus far convinces me that the vast majority of State and local governments are very conscientiously complying with the requirements in the Act. I base this conclusion on the assurances and certifications provided to the Office of Revenue Sharing by the chief executive officer of each government, on information contained in their reports of uses and plans, on studies by the General Accounting

Office, on the field reviews and investigations carried out by our own Compliance staff, and on information gained from the many studies being carried out by public and private organizations. A further indication of compliance is the relatively few complaints we have received from the general public and from organizations which have a special interest in the appropriate uses of revenue sharing funds.

Next month we will send out to all governments a form for reporting their actual use of revenue sharing funds during this fiscal year. We expect to have these reports in, summarized, and published about October. For the present, the most recent complete data we have on actual expenditures is for the period ending June 30, 1973. That information is contained in the publication "General Revenue Sharing - The First Actual Use Reports." While I'd like to comment a little later in more detail, I think it is significant to notice that funds were expended in <u>each</u> of the priority categories defined in the Act. Also important is the considerable variation in patterns of expenditure from one part of the country to another, according to the size and type of government, and from one governmental unit to the next. I think this reflects the great diversity of pressing needs that are found in our local jurisdictions around the country.

At the Federal level, the administration of the revenue sharing program is carried out by a small staff - currently sixty-eight people - organizationally located in the Office of the Secretary of the Treasury. This staff acquires and verifies the necessary data; computes allocations and makes payments; maintains accounts; obtains and analyzes required reports from the 38,000 recipient governments; carries on an active technical information and assistance program; arranges or accomplishes evaluation of compliance with the Act; ensures corrective action where non-compliance is found; provides public information about revenue sharing; and carries on planning and coordination for revenue sharing within the Administration.

We have, I believe, been quite successful in keeping Federal costs of administering revenue sharing unusually low. I am glad to say that this economical administration at the Federal level has not been accomplished by shifting the administrative burden to States or localities, for we have kept the State and local costs of program participation minimal.

I would now like to provide more specific information on the uses and impact of shared revenues, the allocations of funds and other important aspects of the program.

Also, at this point, I request that the Annual Report of the Office of Revenue Sharing, March, 1974 be entered into the record of this Hearing.

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Uses and Impact of Shared Revenues

General Revenue Sharing is a "new and fundamentally different kind" of fiscal assistance intended to "help our sorely pressed State and local governments to meet their heavy financial problems and to keep them financially sound" and "to give the State and local governments the flexibility that they need to use the funds for the most vital purposes in their particular circumstances." (Staff of Joint Committee on Internal Revenue Taxation: "General Explanation of the State and Local Fiscal Assistance Act of 1972", February 12, 1973.)

General Revenue Sharing is now distributing more than $6 billion annually to all States and more than 38,000 local governments. The present law appropriates funds through December 1976 in the total amount appropriated for the five-year program authorization of $30.2 billion.

The money is allocated according to the formulas set forth in the State and Local Fiscal Assistance Act of 1972, our authority to operate.

One-third of the annual appropriation is distributed to the 50 States and the District of Columbia, two-thirds is distributed among the units of local

(general) government numbering nearly 39,000. Table 1 which follows shows the number of governments by State and type.

To June 1, 1974, $12,742,674,212 has been distributed to all recipients. By regulation, local and State officials may take up to two years to spend or appropriate these funds. Most governments are appropriating and spending their revenue sharing funds in considerably less time.

All jurisdictions are required to report to the Office of Revenue Sharing annually the purposes for which General Revenue Sharing funds have been spent. These Actual Use Reports are due about 60 days following the end of each fiscal year. Consequently, the latest data available at this time is from the reports submitted nearly one year ago.

Our publication, "General Revenue Sharing - the First Actual Use Reports," dated March 1974, reports in detail the utilization of the initial funds.

TABLE 1

TYPES OF GOVERNMENTS BY STATE

State Name	*Counties*	*Munici-palities*	*Town-ships*	*Indians*	*Total*
Alabama	67	406	------	------	473
Alaska	8	119	------	18	145
Arizona	14	65	------	8	87
Arkansas	75	460	------	------	535
California	57	409	------	21	487
Colorado	62	258	------	2	322
Connecticut	-----	34	149	------	183
Delaware	3	54	------	------	57
Dist. of Columbia	-----	1	------	------	1
Florida	66	384	------	2	452
Georgia	158	526	------	------	684
Hawaii	3	1	------	------	4
Idaho	44	198	------	5	247
Illinois	102	1,270	1,436	------	2,808
Indiana	91	562	1,008	------	1,661
Iowa	99	953	------	1	1,053
Kansas	105	627	1,498	2	2,232
Kentucky	120	397	------	------	517
Louisiana	62	295	------	1	358
Maine	16	22	474	2	514
Maryland	23	151	------	------	174
Massachusetts	12	39	312	------	363
Michigan	83	531	1,247	5	1,866
Minnesota	87	854	1,800	7	2,748
Mississippi	82	277	------	1	360
Missouri	114	906	343	------	1,363
Montana	56	126	------	6	188
Nebraska	93	534	479	3	1,109
Nevada	16	17	------	11	44
New Hampshire	10	13	222	------	245
New Jersey	21	335	232	------	588
New Mexico	32	91	------	8	131
New York	57	619	930	7	1,613
North Carolina	100	456	------	1	557
North Dakota	53	359	1,368	5	1,785
Ohio	88	935	1,320	------	2,343
Oklahoma	77	561	------	15	653
Oregon	36	235	------	4	275
Pennsylvania	66	1,013	1,550	1	2,630
Rhode Island	-----	8	31	------	39
South Carolina	46	262	------	------	308
South Dakota	67	309	1,031	9	1,416
Tennessee	94	320	------	------	414
Texas	254	1,022	------	2	1,278
Utah	29	215	------	4	248
Vermont	14	60	237	------	311
Virginia	95	232	------	1	328
Washington	39	266	39	16	360
West Virginia	55	227	------	------	282
Wisconsin	72	572	1,270	9	1,923
Wyoming	23	87	------	1	111
Total	3,046	18,673	16,976	178	38,873

As of June 30, 1973, governments had spent 42.5% of the funds they had received, for the purposes shown in Table 2, which follows.

TABLE 2

Reported Use of General Revenue Sharing
Through June 30, 1973

Purpose	State Govts	Local Govts	All Govts
Education	$664.3	$ 22.9	$687.2
Public Safety	20.0	635.2	655.2
Public Transportation	55.6	361.3	416.9
Environmental Protection/ Conservation	7.4	180.4	187.8
Multi-Purpose/General Government	5.9	177.8	183.7
Other	151.9	25.7	177.6
Health	30.7	135.1	165.8
Recreation/Culture	3.7	113.0	116.7
Social Services for the Poor or Aged	61.2	26.9	88.1
Financial Administration	18.5	51.4	69.9
Housing/Community Development	1.1	24.9	26.0
Libraries	-0-	18.5	18.5
Social Development	-0-	12.9	12.9
Economic Development	2.2	9.4	11.6
Totals	$1022.5	$1795.4	$2817.9

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Overall, more revenue sharing dollars had been spent in the field of education than in any other area of activity. Some 24% of the first $2.8 billion of expended money had been used for this purpose, with the greatest part spent by State governments which alone spent $664.3, million, or 65% of their shared revenues for education.

The next largest early uses of funds were public safety (23% of all funds expended) and public transportation (15%).

Cities tended to favor public safety as the area of activity in which funds most needed to be used. Nationwide, they spent $434 million, or 44% of their money in support of such activities as police and fire protection and building code enforcement. All types of local governments together expended $635.2 million, or 35% for public safety.

County governments established public transportation as their top-priority use of the money. Some $161.5 million, representing 25% of funds expended by counties by June 30 of last year, was spent to construct, improve, and maintain public transportation facilities including streets, roads and bridges.

Our figures show that more money is being used for current expenses to operate and maintain programs than is being devoted to capital expenditures. This is especially noted in more densely populated areas; particularly in the Northeastern United States.

A more recent, independent survey of revenue sharing decisions in 106 cities over 50,000 (Caputo and Cole paper delivered at ASPA, Syracuse, New York, May 7, 1974) shows the following spending pattern for Fiscal Year 1974 revenue sharing funds:

Table 3

DISTRIBUTION OF FY 1974 GENERAL REVENUE SHARING FUNDS BY CITIES OVER 50,000 POPULATION

Expenditure For:	Proportion of Total Revenue Sharing Funds		
	Operating	Capital	Total
Law Enforcement	12.3%	3.2%	15.5%
Fire Protection	11.6	3.6	15.2
Building & Zoning Code Enforcement	.6	.3	.9
Environmental Protection (sewage, pollution, sanitation etc.)	4.6	8.7	13.3
Transit Systems	1.9	1.3	3.2
Street and Road Repair	5.4	9.2	14.6
Social Services for the poor, aged, and minority groups	1.8	1.0	2.8
Health Services	1.8	.5	2.3
Recreation and Parks	2.0	9.1	11.1
Public Building Renovation	.6	3.6	4.2
Supplementing Municipal Salaries	4.1	5.6	9.7
Tax Relief	2.9	-0-	2.9
Investments	.3	-0-	.3
Previous Debt Retirement	-0-	.2	.2
Libraries	.7	.9	1.6
Financial Administration	.8	.6	1.4
Other and Undetermined	.6	.2	.8
Total	52.0%	48.0%	100.0%

N = 184

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The early expenditures appear to reflect the priorities of the general public. A survey last year by the University of California at Los Angeles, and another survey sponsored at about the same time by the Advisory Commission on Intergovernmental Relations, both found respondents agreeing that public safety and transportation were among their highest priorities for uses of public funds. These surveys provide some reason to conclude that the money is being spent where people generally want it to be spent.

Although the Office of Revenue Sharing does not require annual reports on actual uses of the money down to the project level, it would appear to us that expenditures in activities such as education, health, social services for the poor or aged, social development, housing and community development and recreation and culture, represent more than one-third of all monies expended through June 30 of last year.

Surveys and inquiries made to date strongly suggest that the limited - 5 year - authorization for this program constitutes an inhibition on the local decisions for use of the funds. Many officials have chosen to limit their expenditures to capital purposes, avoiding a future reliance upon funds which conceivably could be terminated after 1976.

This may skew expenditure patterns in a way probably not anticipated by the Congress when it decided to authorize the program for a limited period of time before Congressional review.

Other influences, some external and some relating to the differing functions of different levels of government, have had their effects on expenditures of shared revenues.

In his report to the Congress entitled Revenue Sharing: Its Use by and Impact On Local Governments, dated April 25, 1974 the Comptroller General of the United States stated that "different patterns and responsibilities developed because of varied geographic, economic, and social conditions and because of local interest... In some States local governments have primary responsibility, subject to regulation and/or financial assistance from the State government, for providing services that in other areas are State responsibilities, especially for public welfare, highways, and health and hospitals... special districts versus general government provision of specific services, also influence the type of functions of general-purpose governments."

The General Accounting Office also found that Congressionally-mandated "...restrictions on the direct uses of the funds and...the reduction or possibility of reductions in funding received under other Federal aid programs appeared to incluence some governments' direct use of funds."

We also know that General Revenue Sharing is helping to relieve pressures on State and local taxes for nearly half of the general-purpose units of government in the United States.

Caputo and Cole in their report referenced earlier found that General Revenue Sharing has had a marked effect on local tax rates as shown in Table 4:

TABLE 4

EFFECT OF GENERAL REVENUE SHARING
ON TAX RATE
CITIES OVER 50,000 POPULATION

	Allowed for Reduction		Prevented Increase in Rate		Reduced Rate	Amount of Increase	No Effect	
1974 (N=175)	22	(13%)	60	(34%)	28	(16%)	65	(37%)
Long range (N=172)	4	(2%)	50	(29%)	79	(46%)	39	(23%)

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Note that 37% of the respondents felt that General Revenue Sharing funds had no immediate effect on tax rates, while the largest number of respondents (63%) indicated that the funds had either prevented or reduced the amount of rate increase. These findings suggest that the fiscal crisis facing many American cities has been mollified by General Revenue Sharing funds.

Furthermore, one-third of all recipient governments reported to the Office of Revenue Sharing in July and August 1973 that General Revenue Sharing money has helped them to avoid or lessen a debt increase. Since most State and local debt is tax supported, we can conclude that this use, too, will have a salutary effect on local tax rates.

As States and local governments have considered how and where to use their shared revenues, their review often has expanded to encompass uses of <u>all</u> available funds. Accordingly, General Revenue Sharing is not only stimulating public participation in the decision-making process relating to the money we are distributing, but also it is encouraging more and better awareness of budget processes generally.

This increase in public involvement encourages officials to sharpen their pencils and it gives the citizenry a new appreciation of the nature and extent of resources required for the management of the public business.

Rather than creating an adversary relationship to replace the apathy that has existed between officials and citizens in so many communities, revenue sharing - stimulated public participation is instilling in both a new sense of mutual respect.

In its April 25, 1974 Report to the Congress, GAO noted that although "Most governments we reviewed held public hearings as part of their budgetary processes....About one-third of the 240 cities and counties indicated that their citizens had participated more in planning the uses of revenue sharing than is normal in their budgetary processes." In larger cities, those over 500,000 population, citizen participation was increased in 50%; in cities with populations of 50,000 to 499,999, some 40.5% reported increased participation.

Interestingly, the GAO report also comments on the relationship of General Revenue Sharing and local government reform:

> "Local government reform and modernization efforts face many obstacles, not the least of which are public apathy and vested interests. Some fear that revenue sharing may have added one more obstacle. In some cases distributing revenue sharing funds to essentially all general-purpose governments regardless of size or fiscal condition tends

inefficiency by reducing pressure on to perpetuate/inefficient units to economize. Although many factors are involved in changing the jurisdiction and organization of local government, officials in some jurisdictions said revenue sharing promoted modest reform and cooperation."

Finally, GAO reports that a significant number of jurisdictions, over 25% of those surveyed, report that General Revenue Sharing has promoted or encouraged intergovernmental projects, programs or cooperation.

These results have been due to voluntary decisions by States and local governments. For the recipients, General Revenue Sharing is a refreshingly simple Federal assistance program, easy for them to understand and lacking the red tape which often has characterized categorical grant administration. No applications are required to participate in the program, and the only reports required of local governments are the brief Report of Planned Use and the one-page Actual Use Report which the Act requires each jurisdiction to submit annually.

Our work to educate public executives on State and local levels of government about General Revenue Sharing and to assure their compliance with the revenue sharing law has given us a new appreciation of the sincerity, dedication and spirit of cooperation that characterize the service they perform.

A major reason for the ability of States and local governments to comply with the law is the simplicity of the law itself. As the Senate Finance Committee stated in its report on the Revenue Sharing Act of 1972, dated August 16, 1972, "...the basic purpose of this bill should be to provide the States and localities with a specified portion of Federal individual income tax collections to be used by them in accordance with local needs and priorities and without the attachment of strings by the Federal Government."

The Caputo and Cole report cited earlier found that public official satisfaction with the program is high and it is increasing. Ninety percent of the 1974 respondents (cities over 50,000) indicated that they were either very satisfied (61%) or somewhat satisfied (29%) with the program, while only 6% indicated dissatisfaction. In 1973, those indicating satisfaction represented 78% while 13% were undecided. "Obviously," say Caputo and Cole, "general revenue sharing is quite popular with local officials."

In concept, the program seems to be popular with the general public as well. A national public opinion survey commissioned by the Advisory Commission on

Intergovernmental Relations in March 1972 found that 56% of the respondents favored the "new form of Federal aid called revenue sharing." Only 18% were recorded as opposed while 26% had no opinion. The still unpublished result of a similar survey made in the Spring of 1974 shows a significant increase in the percentage of respondents favoring General Revenue Sharing.

Perhaps there is a more than incidental correlation between this finding and that of the 1973 Harris survey conducted for this Subcommittee which found "Public support (61%) for reinforcing the structure and authority of local government", and 59% advocating "strengthening State government."

Allocations of Funds

Payments of shared revenues are made each quarter, in the first week of October, January, April and July. Each payment represents one-fourth of the estimated entitlement amounts that are calculated and announced to recipient governments in April.

Data supplied by the U.S. Bureau of the Census and verified according to procedures described below are applied for each unit of government in distribution formulas contained in the revenue sharing law.

Detailed information about the allocation procedure is contained on pages 12 and 13 of the Annual Report of the Office of Revenue Sharing, March 1974 that has been entered into the record of this Hearing.

The latest data on payments and allocations of shared revenues are shown in Tables 5, 6, & 7 which follow.

Table 5

REVENUE SHARING SUMMARY
FUNDS PAID TO DATE
June 1, 1974

	STATE	COUNTIES	Cities	TOWNSHIPS	INDIANS	TOTALS
ALABAMA	72,225,551	53,225,834	91,389,255			216,840,640
ALASKA	5,452,114	4,139,528	6,158,200		326,211	16,076,053
ARIZONA	41,832,936	33,729,431	46,072,869		3,773,573	125,408,809
ARKANSAS	47,603,611	47,549,815	36,001,843			131,155,269
CALIFORNIA	453,841,850	549,689,231	357,600,195		296,893	1,361,428,169
COLORADO	44,195,627	31,242,603	57,060,904		86,937	132,586,071
CONNECTICUT	53,362,463		57,199,243	49,736,733		160,298,439
DELAWARE	14,938,627	13,470,075	9,657,315			38,066,017
DIST OF COLUMBIA	57,422,377					57,422,377
FLORIDA	120,303,844	105,770,078	134,813,931		43,872	360,931,725
GEORGIA	87,842,601	102,080,554	73,553,472			263,476,627
HAWAII	18,836,388	9,200,812	28,471,964			56,509,164
IDAHO	17,365,251	20,015,313	14,515,833		189,539	52,085,936
ILLINOIS	217,565,091	101,620,496	276,586,945	56,639,186		652,411,718
INDIANA	90,646,852	62,537,477	98,681,665	19,935,912		271,801,906
IOWA	60,215,546	70,058,458	50,354,277		26,916	180,655,197
KANSAS	41,429,947	41,839,126	36,157,208	4,659,959	16,849	124,103,089
KENTUCKY	83,796,142	57,281,400	67,680,428			208,757,970
LOUISIANA	99,769,373	78,567,116	114,941,868		13,983	293,292,340
MAINE	25,616,087	3,331,690	20,863,858	26,885,389	104,106	76,801,130
MARYLAND	84,476,051	97,955,105	71,665,623			254,096,779
MASSACHUSETTS	133,563,856	15,360,840	150,247,507	102,118,358		401,290,561
MICHIGAN	179,883,281	104,361,912	220,761,363	34,043,827	61,898	539,112,281
MINNESOTA	83,752,223	89,140,043	67,834,124	10,549,423	506,245	251,782,058
MISSISSIPPI	73,453,759	88,510,384	49,570,281		102,141	211,636,565
MISSOURI	78,876,606	52,980,816	101,095,158	3,624,478		236,577,058
MONTANA	16,487,309	21,821,570	9,946,836		1,181,818	49,437,533
NEBRASKA	31,113,119	30,825,878	29,297,303	1,992,514	129,463	93,358,277
NEVADA	9,315,331	11,617,675	6,862,189		144,846	27,940,041
NEW HAMPSHIRE	13,419,740	3,410,566	12,640,958	10,900,932		40,372,196
NEW JERSEY	132,921,661	98,321,843	118,154,109	49,445,429		398,843,042
NEW MEXICO	27,759,784	21,699,642	27,230,986		3,463,139	80,153,551
NEW YORK	471,605,665	204,035,359	639,308,282	100,000,096	260,020	1,415,209,422
NORTH CAROLINA	108,814,979	116,648,475	100,726,985		245,945	326,436,384
NORTH DAKOTA	17,713,380	17,999,753	11,956,275	4,698,521	727,474	53,095,403
OHIO	169,021,690	107,999,545	196,892,438	33,103,040		507,016,713
OKLAHOMA	47,235,318	36,024,635	57,655,770		830,405	141,746,128
OREGON	41,897,152	31,447,137	52,201,851		138,651	125,684,791
PENNSYLVANIA	221,726,107	125,464,933	248,448,357	69,480,666	248	665,120,311
RHODE ISLAND	19,216,274		27,432,952	11,028,265		57,677,491
SOUTH CAROLINA	59,802,888	59,819,723	53,793,411			173,416,022
SOUTH DAKOTA	19,224,768	22,571,822	11,716,758	2,834,973	1,323,254	57,671,575
TENNESSEE	79,126,544	67,137,526	91,538,242			237,802,312
TEXAS	200,489,997	145,399,282	254,057,016		41,568	599,987,863
UTAH	25,003,690	24,924,794	24,655,935		380,057	74,964,476
VERMONT	11,874,779	297,091	8,177,664	15,356,292		35,705,826
VIRGINIA	84,021,856	62,117,159	106,401,725		3,624	252,544,364
WASHINGTON	61,790,450	55,449,346	67,643,285	3,336	506,333	185,392,750
WEST VIRGINIA	55,459,229	32,120,581	37,030,226			124,610,036
WISCONSIN	106,441,615	103,834,389	91,622,988	17,582,125	317,887	319,799,004
WYOMING	8,030,378	11,731,400	4,091,833		231,142	24,084,753
NATIONAL TOTALS	4,327,781,757	3,246,378,261	4,528,419,703	624,619,454	15,475,037	12,742,674,212

NATIONAL TOTALS 4,327,781,757 3,246,378,261 4,528,419,703 624,619,454 15,475,037 12,742,674,212

Table 6

REVENUE SHARING SUMMARY
FISCAL YEAR 1974 AMOUNTS
June 1, 1974

	STATE	COUNTIES	Cities	TOWNSHIPS	INDIANS	TOTALS
ALABAMA	34,707,531	23,848,922	45,532,384			104,088,837
ALASKA	2,674,143	2,426,732	2,834,129		188,207	8,123,211
ARIZONA	20,678,377	16,793,059	23,113,052		1,775,964	62,360,452
ARKANSAS	22,614,730	23,000,099	17,603,267			63,218,096
CALIFORNIA	220,435,876	270,170,404	170,727,172		158,313	661,491,765
COLORADO	21,471,666	15,095,640	27,869,993		42,366	64,479,665
CONNECTICUT	25,571,903		27,284,001	24,086,012		76,941,916
DELAWARE	6,695,042	6,895,600	4,605,153			18,195,795
DIST OF COLUMBIA	27,679,202					27,679,202
FLORIDA	58,845,496	52,948,268	64,857,265		21,725	176,672,754
GEORGIA	42,335,764	48,836,471	35,975,998			127,148,233
HAWAII	9,026,950	4,518,502	13,535,396			27,080,848
IDAHO	8,470,692	9,901,764	6,973,750		91,865	25,438,071
ILLINOIS	104,285,307	49,802,672	130,579,797	28,785,722		313,453,498
INDIANA	43,531,261	31,230,279	44,767,268	11,203,416		130,732,224
IOWA	28,939,634	33,671,900	24,200,764		11,790	86,824,088
KANSAS	19,783,378	19,695,690	17,583,146	2,526,776	8,231	59,597,221
KENTUCKY	38,303,761	29,651,736	32,333,283			100,288,780
LOUISIANA	47,698,674	38,547,841	54,834,197		6,411	141,087,123
MAINE	12,926,541	1,836,785	10,440,201	13,659,369	50,626	38,913,522
MARYLAND	40,312,166	49,205,675	31,588,180			121,106,021
MASSACHUSETTS	64,819,876	7,049,733	72,532,675	50,095,672		194,497,956
MICHIGAN	86,764,997	50,870,992	107,530,706	16,001,749	29,068	261,197,512
MINNESOTA	39,895,294	42,134,843	32,900,800	4,713,673	244,524	119,889,134
MISSISSIPPI	36,345,894	41,898,954	23,676,492		37,802	101,959,142
MISSOURI	38,020,222	24,732,571	49,798,804	1,613,506		114,165,103
MONTANA	7,968,824	10,517,029	4,922,848		591,467	24,000,168
NEBRASKA	14,989,070	14,874,957	14,160,621	952,323	64,285	45,041,256
NEVADA	4,520,275	5,709,669	3,262,144		74,228	13,566,316
NEW HAMPSHIRE	6,510,007	1,678,781	6,581,350	5,177,703		19,947,841
NEW JERSEY	63,904,841	47,988,236	56,353,859	23,600,665		191,847,601
NEW MEXICO	13,294,000	10,232,551	14,011,043		1,750,906	39,288,500
NEW YORK	227,367,424	87,944,624	318,962,319	47,919,393	120,854	682,314,614
NORTH CAROLINA	52,417,100	56,925,722	47,776,010		115,938	157,234,770
NORTH DAKOTA	8,521,549	8,526,874	5,968,653	2,272,967	339,921	25,629,964
OHIO	80,741,005	54,185,897	91,947,565	15,537,321		242,411,788
OKLAHOMA	22,776,983	16,864,273	28,061,318		431,006	68,133,580
OREGON	20,020,049	15,405,052	24,585,227		66,611	60,076,939
PENNSYLVANIA	106,612,929	60,158,851	119,062,315	34,252,352	122	320,086,569
RHODE ISLAND	9,221,136		12,663,165	5,779,070		27,663,371
SOUTH CAROLINA	28,715,397	28,389,049	26,552,255			83,656,701
SOUTH DAKOTA	9,228,953	10,592,185	5,815,731	1,360,722	613,268	27,610,859
TENNESSEE	38,120,529	34,261,019	42,231,848			114,613,396
TEXAS	97,041,388	69,806,986	123,851,718		19,853	290,719,945
UTAH	12,200,667	12,343,665	11,909,068		184,788	36,638,188
VERMONT	5,749,019	136,604	4,074,346	7,313,297		17,273,266
VIRGINIA	40,142,888	30,302,132	50,372,824		1,893	120,819,737
WASHINGTON	29,575,578	26,763,161	32,324,307	3,954	278,712	88,945,712
WEST VIRGINIA	25,398,875	15,622,779	18,819,925			59,841,579
WISCONSIN	51,207,651	48,254,473	46,725,997	8,088,061	153,927	154,430,109
WYOMING	3,885,015	5,613,655	2,058,083		110,434	11,667,187
NATIONAL TOTALS	2,082,965,529	1,567,863,356	2,186,732,412	304,943,723	7,585,105	6,150,090,125

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Table 7

REVENUE SHARING SUMMARY
FISCAL YEAR 1975 ESTIMATES
June 1, 1974

	STATE	COUNTIES	Cities	TOWNSHIPS	INDIANS	TOTALS
ALABAMA	34,257,629	27,482,519	41,230,982			102,971,130
ALASKA	2,727,453	1,914,173	3,417,386		173,741	8,232,753
ARIZONA	20,991,955	16,578,953	23,756,491		1,682,934	63,010,333
ARKANSAS	21,670,417	23,390,641	19,803,164			64,864,222
CALIFORNIA	215,870,965	256,777,729	174,806,465		157,740	647,612,899
COLORADO	21,817,918	15,322,543	28,349,901		37,913	65,528,275
CONNECTICUT	26,564,230		28,138,876	25,008,563		79,711,669
DELAWARE	6,534,275	7,400,968	4,698,888			18,634,131
DIST OF COLUMBIA	26,672,828					26,672,828
FLORIDA	63,900,985	57,947,549	69,829,452		24,291	191,702,277
GEORGIA	43,744,703	50,374,411	37,019,576			131,138,690
HAWAII	8,901,655	4,606,384	13,196,927			26,704,966
IDAHO	7,901,680	9,060,356	6,653,830		88,563	23,704,429
ILLINOIS	103,805,407	41,775,292	139,003,025	27,437,283		312,021,007
INDIANA	42,526,112	27,455,893	45,845,020	12,079,083		127,906,108
IOWA	28,625,371	33,367,824	24,046,946		12,215	86,052,356
KANSAS	18,890,601	19,576,602	16,245,018	2,128,547	7,885	56,848,653
KENTUCKY	34,658,660	29,811,859	34,019,299			98,469,818
LOUISIANA	46,650,677	38,696,211	53,804,725		5,853	139,157,466
MAINE	12,617,400	1,723,938	10,808,346	12,814,615	46,428	38,010,727
MARYLAND	40,102,851	47,281,069	32,747,046			120,130,966
MASSACHUSETTS	64,952,685	7,639,791	73,612,983	48,893,983		195,099,442
MICHIGAN	87,151,112	51,181,344	108,911,128	15,373,183	25,826	262,642,593
MINNESOTA	40,965,547	43,922,814	32,575,648	4,799,822	267,885	122,531,716
MISSISSIPPI	33,586,605	40,969,886	22,874,460		37,824	97,468,775
MISSOURI	39,208,693	25,222,590	51,501,501	1,660,187		117,592,971
MONTANA	8,421,418	11,298,753	4,928,327		626,264	25,274,762
NEBRASKA	13,842,386	13,935,572	12,842,033	897,200	57,751	41,574,942
NEVADA	4,483,575	5,620,794	3,273,840		72,518	13,450,727
NEW HAMPSHIRE	6,690,951	1,881,549	6,392,005	5,255,396		20,219,901
NEW JERSEY	64,542,287	38,969,551	57,895,789	32,377,341		193,784,968
NEW MEXICO	13,137,363	10,788,575	12,955,616		1,801,051	38,682,605
NEW YORK	230,093,948	99,295,486	311,996,785	48,747,165	156,277	690,289,661
NORTH CAROLINA	52,301,398	55,800,863	48,682,584		101,747	156,886,592
NORTH DAKOTA	6,990,224	7,534,576	4,555,522	1,755,633	290,678	21,126,633
OHIO	82,154,740	50,097,301	98,286,827	16,051,378		246,590,246
OKLAHOMA	23,248,484	15,680,994	30,455,721		429,119	69,814,318
OREGON	20,621,679	16,150,180	25,075,617		65,485	61,912,961
PENNSYLVANIA	108,908,296	60,807,155	121,613,262	35,567,570	120	326,896,403
RHODE ISLAND	9,071,146		12,927,969	5,249,238		27,248,353
SOUTH CAROLINA	28,432,507	30,865,103	26,182,326			85,479,936
SOUTH DAKOTA	8,545,111	9,830,615	5,544,304	1,156,547	592,332	25,668,909
TENNESSEE	39,970,769	34,181,126	45,927,668			120,079,563
TEXAS	97,972,777	76,970,254	119,081,942		20,071	294,045,044
UTAH	12,077,991	11,880,747	12,073,186		195,306	36,227,230
VERMONT	5,799,942	137,594	3,997,520	7,465,270		17,400,326
VIRGINIA	40,667,581	30,023,971	51,276,034		2,070	121,969,656
WASHINGTON	28,918,450	25,783,426	31,783,370	294	256,241	86,741,781
WEST VIRGINIA	25,751,263	16,484,886	19,325,793			61,561,942
WISCONSIN	51,727,072	53,667,249	41,898,421	7,482,175	169,087	154,944,004
WYOMING	3,557,350	5,133,903	1,677,458		108,504	10,677,215
NATIONAL TOTALS	2,083,227,122	1,562,301,562	2,207,747,002	312,200,473	7,513,719	6,172,989,878

Data Collection and Improvement

Data relating to population, per capita income and general tax effort for all general-purpose units of State and local government are provided by the U. S. Bureau of the Census.

Each year, tax effort data is updated for all governments, and population and per capita income data is updated to reflect boundary and organizational changes for affected governments. Because of the importance of the data in determining allocations, the Bureau of the Census and the Office of Revenue Sharing carefully analyze and verify the data. In addition, a data improvement program is conducted with the assistance of the recipient governments themselves.

The Office of Revenue Sharing mails to each unit of government the data that have been provided for that unit, together with a reply form on which to indicate any improvements that are believed to be needed to correct errors and assure accuracy. Replies from State and local governments showing cause for data revision are reviewed with the Bureau of the Census. Where warranted, the data are revised for allocation purposes.

Three such reviews have been conducted by the Office of Revenue Sharing thus far.

In the first, data used to calculate allocations of funds through June 30, 1973, were provided to recipient governments in December 1972. Of the 4,000 governments that questioned one or more of the data elements, approximately half were found to have had adequate reason and changes were made as a result.

The second data improvement effort was initiated in October 1973, when figures to be used to make Fiscal Year 1974 allocations were sent to all units of government for review. About 2,000 governments challenged data; and only 850 such requests for change were found to warrant data revision.

Data to be used in calculating Fiscal Year 1975 amounts were provided to recipient governments in February 1974, and about 1,600 governments responded with proposed changes. Data were revised for approximately 750 governments as a result of this effort. Almost all of the proposed improvements had been considered and acted upon before initial allocations of Fiscal Year 1975 amounts were made. Accordingly, data used in the current calculations are of very high quality. Completion of the data improvement

program <u>before</u> the initial allocation for a given period is an important accomplishment which will minimize the need for retroactive adjustments to amounts of shared revenues that have been paid.

Intergovernmental Relations

The Office of Revenue Sharing conducts an intensive program to provide information and assistance to States and local governments.

Our Intergovernmental Relations Division, with nine professional and three clerical employees, responds to written inquiries from all recipient governments, interest groups and citizens at the rate of more than 200 per month, while handling approximately 1,000 telephone requests for assistance during a comparable period of time. From this staff speakers are provided to participate in approximately 20 meetings and workshops for local officials and interested citizens each month, in Washington and throughout the country.

Other technical assistance activities include:

- The publication of ReveNews, a technical assistance newsletter for public interest groups, regional associations, State contacts and Congressional offices. The newsletter, with a circulation of

approximately 2,500, addresses questions of revenue sharing administrative procedure and clarifies current issues of interpretation of the revenue sharing statute and its regulations.

- The design, production and distribution to State and local liaison persons of information release packages, providing detailed notes, checklists of important points to remember and facsimiles of all revenue sharing forms. The information releases are intended to provide advance materials about major Office of Revenue Sharing activities and to highlight possible areas of confusion for early attention.

- Development of two pilot technical assistance workshops throughout the States of Arizona and Tennessee. In these workshops, techniques have been developed for reaching the small, local governments which account for about 80% of all recipients, to answer their questions and gather information about their often unique revenue sharing program. A

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special video tape on citizen participation and the Planned Use Report was produced for use in these workshops.

- Preparation of a citizens' guide entitled <u>Getting Involved: Your Guide to General Revenue Sharing</u>. In this guide, we have highlighted those portions of the general revenue sharing legislation and regulations which encourage public participation in local decision-making. We also illustrate the opportunities for citizen involvement in local priority-setting, since revenue sharing funds must be incorporated into the local budget process. We have undertaken a nationwide distribution of the book and have received the active assistance of several hundred organizations and citizens' groups to distribute and publicize this book.
- The establishment of a nationwide information services network. Official representatives of the Governors, and informal contacts in State government and in interest groups in all States, provide invaluable information

dissemination assistance and identify trends and problem areas among their constituents for the Office of Revenue Sharing. Input from these contacts is instrumental in planning the overall revenue sharing information system.

- Sending to each government with each quarterly check an information letter that answers questions frequently asked, provides information about action that recipients should be taking, and advises them of information available to them.

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Audit and Compliance

To assure that the funds are expended according to the requirements of the revenue sharing law, an Audit and Compliance program has been developed to utilize existing audit resources wherever possible. This program includes the following basic elements:

1. Cooperative State Audit System: State audit agencies willing to do so will perform regular audits of the local governments within their States for revenue sharing purposes, using standards published by the Office of Revenue Sharing.
2. Cooperative Private Audit Program: accounting firms who agree to do so will include revenue sharing review in their regular contractual audits of States and local governments.
3. Random audits will be performed by Office of Revenue Sharing staff.
4. Cooperative efforts with other Federal agencies will include exchange of information and jointly conducted investigations and negotiations.
5. Investigation of complaints will proceed as they are received by the Office of Revenue Sharing.

The first formal agreement with a State to perform audits and compliance reviews to assist us in monitoring the expenditure of shared revenues was concluded with the

State of New York on May 20th. Through this agreement, New York's State Comptroller will perform annual revenue sharing audits of more than 1,600 units of local government, using standards published by the Office of Revenue Sharing.

Similar agreements with other States will be concluded soon.

In addition, Office of Revenue Sharing staff will perform audits of a sample of governments to assure coverage and quality.

Through these efforts, we expect within a year (subject to approval of the FY 75 budget request) to achieve regular audit coverage of at least 90% of the monies we distribute.

Since the Audit and Compliance Division of the Office of Revenue Sharing was established, using resources granted in our FY 1974 appropriation, our small staff of auditors, attorneys, and investigators have processed 92 complaints of which 45 have been resolved to the satisfaction of all parties. Another 46 cases are in various stages of investigation or processing and one has been referred to the Department of Justice for civil action.

The types and numbers of complaints we have received and the status of these is as follows:

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Table 8

COMPLAINTS HANDLED BY
THE OFFICE OF REVENUE SHARING

to June 1, 1974

Nature of Complaint	Resolved	In Process	In Court	Total
Civil Rights/Discrimination	18	22	1	41
Financial/Accounting	5	4	0	9
Legal/Compliance with Applicable Provisions	11	11	0	22
Miscellaneous (publication, matching funds, Davis-Bacon Act problems	11	9	0	20

An additional 40 communications alleging possible misuse of revenue sharing funds were found to be unsupported or to not involve revenue sharing funds.

Legal Procedures

When a compliance problem cannot be resolved through negotiation and when questions arise that require adjudication, the Office of Revenue Sharing becomes involved in litigation. Following is a summary of the seven court cases in which the Office of Revenue Sharing is involved, including a short description of the nature and status of each.

1. The Board of Supervisors of Amherst County, Va. (and 16 other Virginia Counties) v. Shultz, et als. These consolidated cases are pending in the United States District Court for the Western District of Virginia at Roanoke. These counties claim additional entitlements for the first three periods based on the contention that the element of "adjusted taxes," as used by ORS for purposes of determining the general tax effort in the formula in accordance with Section 51.21(b) of the regulations, is erroneous and inequitable to these counties.

Plaintiffs are amending their complaints to include later entitlement periods. These cases have been answered.

2. Board of Supervisors of Caroline County, Va. (and three other counties) v. Secretary of the Treasury. These four cases are also pending in the same court and involve the same principal issue as the first group. However, these counties are represented by different counsel, and these cases have not yet been consolidated with the other group. They have been answered.

3. Westside Citizen Association, et al, v. Shultz, et al. This case is pending in the United States District Court for the Western District of North Carolina at Charlotte. A private citizen and a Citizen Association sued the City of Charlotte and the Secretary claiming that the City had

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expended revenue sharing funds in annexed areas contrary to the Revenue Sharing Act and the National Environmental Protection Act. As to the Secretary, the plaintiff sought an injunction to prevent further approval and disbursement of revenue sharing funds to the City until these laws were complied with. The case is at issue and motions against the City have been disposed of.

4. Renault Robinson, et al v. Shultz, et al. The plaintiffs in this case which is pending in the United States District Court for the District of Columbia, are the plaintiffs in the "Citizens complaint" lodged with the ORS. Basically, they sought an injunction asking the Court to order the Secretary to defer any more payments to the City of Chicago and further ordering him to initiate administrative proceeding. It also asked the Court to declare that the Secretary has the power to defer revenue sharing payments pending administrative proceedings.

The Court denied the injunction to have the revenue sharing funds stopped, and in its April 4, 1974 Order it declared that the Director has the power to defer pursuant to administrative proceedings.

The plaintiff filed a motion asking the Court to order the Director to promulgate deferral regulations to be effective before the July 5, 1974 payment. This motion is still

pending upon the determination of a legal point involving <u>mandamus</u>. Plaintiff also filed another motion for an order compelling discovery, but this one has not been acted upon.

5. <u>City of Newark v. Shultz</u>. This case is pending in the United States Court for the District of Columbia. The City of Newark, claiming that a population under-count in the 1970 Census which was announced by the Bureau of the Census in 1973, entitled the City of Newark to more money in future payments. They contend that the national black undercount of 7.7%, if applied to Newark, would increase its population and, since according to plaintiff the 145% constraint applies, more money would flow to Newark by reason of the population increase. This case has not been answered as we have presented Newark's counsel our computation showing that the 145% constraint does not apply and hence population is no longer a factor.

6. <u>The Town of Wheeling, et al v. Shultz</u>. This is a declaratory judgment suit pending in the United States District Court for the Northern District of Illinois.

Two Cook County townships claim that they have acted in reliance on a law passed by the Illinois legislature last year. This law gave the townships

power to expend revenue sharing funds for purposes defined as priority expenditures under the Act.

However, acting on our opinion, the Attorney General of Illinois determined that this law undertook to give the townships the right to expend revenue sharing money when they did not have the authority to expend their own revenue in such a broad fashion. Therefore, the Illinois statute is at variance with Section 123(a)(4) which requires that revenue sharing funds be expended only in accordance with the laws and procedures applicable to the townships own funds.

The plaintiffs are asking the Court to declare, that acting on the Illinois statute, they have fulfilled the requirements of Section 123(a)(4).

7. Harjo, et al v. Morton et al. This suit is pending in the United States District Court for the District of Columbia. It is a suit brought by members of the Creek Indian nation against the Secretary of the Interior and others, including the Secretary of the Treasury and the Director of ORS. Basically, the plaintiffs claim that the defendants have acted in violation of treaties with the Creek nation, and the Creek constitution and certain statutes. The violations are claimed to infringe the plaintiffs' constitutional rights. As far as the Secretary and

the Director of ORS are concerned, the plaintiffs are essentially claiming that we recognized the wrong person as the principal chief of the tribe and have been paying revenue sharing funds to a person not designated by the tribe. The answer has been filed as well as motions for a 3 judge court and for a preliminary injunction. As far as we are advised, these motions are still pending.

The Office of Revenue Sharing's legal staff provides opinions on the legal aspects of proposed expenditures upon request. Letter rulings issued during the first year of operation of the general revenue sharing program have been compiled and published, to be available to all recipients and to other interested parties. A copy of that publication, "One Year of Letter Rulings on General Revenue Sharing", is submitted for the Committee's use and for the record.

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Organization of the Office of Revenue Sharing

When the President signed the State and Local Fiscal Assistance Act of 1972 on October 20, 1972, general revenue sharing already was almost eleven months old, for the program was enacted retroactively to January 1, 1972.

To perform the functions the new Act vested in him, Secretary Shultz on February 6, 1973, formally established the Office of Revenue Sharing within the Office of the Secretary. He named Graham W. Watt, Assistant to the Secretary, to direct the new program.

The Office of Revenue Sharing is organized into eight functional units:

1. Administration: manages personnel, budget, central services and other internal administration of the office.
2. Program Planning and Coordination: coordinates special research projects at the request of the Director; manages program planning system.
3. Data and Demography Division: responsible for acquisition of current and accurate data used to compute allocations of funds; conducts data improvement program.

4. <u>Systems and Operations Division</u>: computes allocations of funds; writes payment vouchers; does all associated accounting; issues and processes required reports; produces computer-generated communications and publications.
5. <u>Compliance Division</u>: responsible for assuring compliance with the law by all recipient governments; coordinates audits and investigations of recipients; undertakes cooperative compliance programs with other Federal agencies, State governments, and national associations of civil rights, women's rights and governmental organizations.
6. <u>Chief Counsel</u>: interprets the law; issues opinion letters; writes regulations; represents the Office of Revenue Sharing in all legal matters concerning the general revenue sharing program.
7. <u>Intergovernmental Relations Division</u>: provides technical advice and assistance to State and local governments; maintains liaison with public interest groups.
8. <u>Public Affairs</u>: provides information about general revenue sharing to the public, the media, citizens groups, other Federal agencies, research groups and the Congress.

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Figure 1 attached shows the organizational structure of the Office of Revenue Sharing.

The personnel complement now totals 68 of whom 43 are professional employees and 25 are clerical and support. The fiscal year 1975 budget request proposes a total complement of 121 which is believed to represent optimum staffing to perform present functions.

The present and proposed employees are allocated among the several divisions of the Office of Revenue Sharing in the following manner:

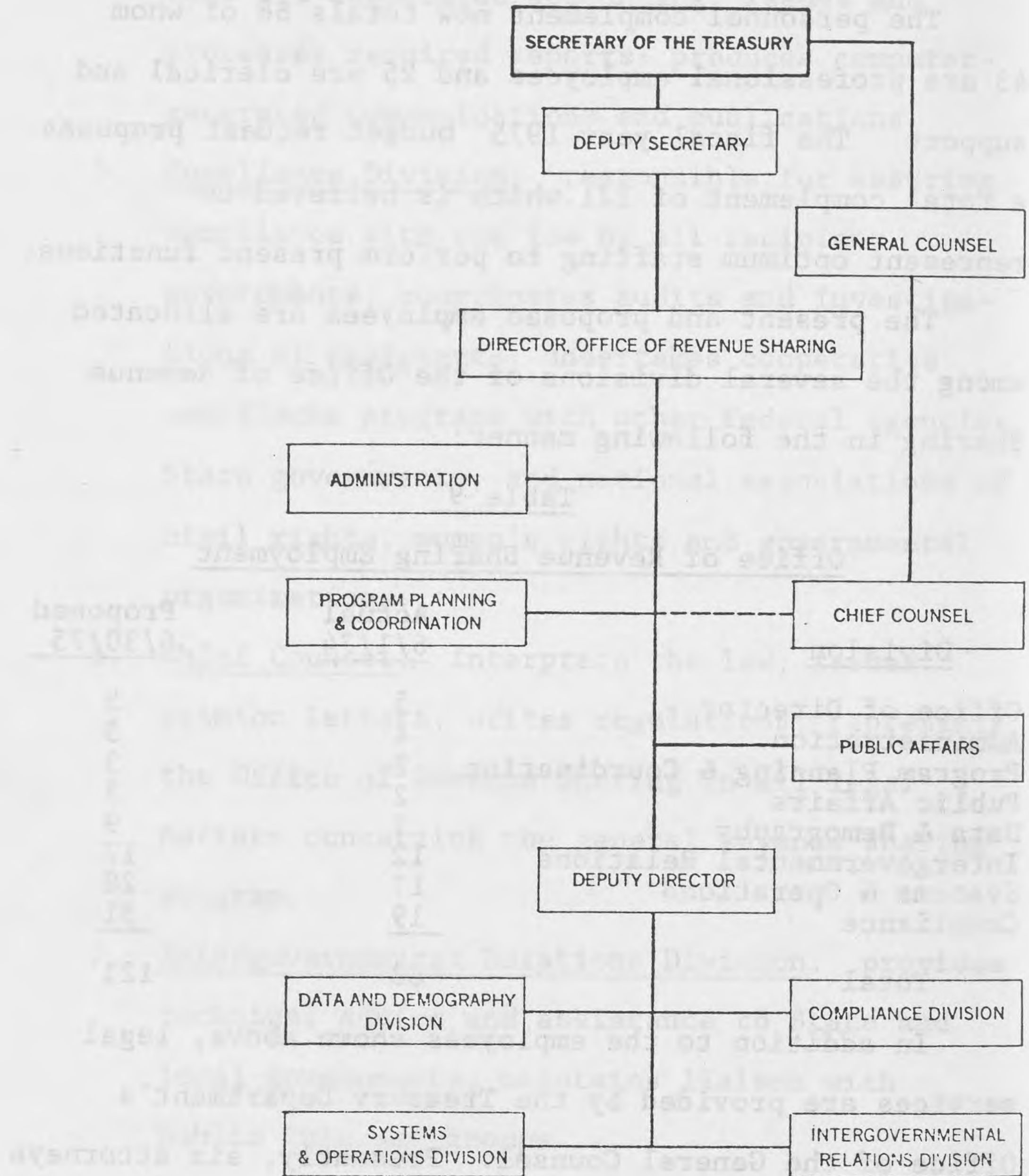
Table 9

Office of Revenue Sharing Employment

Division	Actual 6/1/74	Proposed 6/30/75
Office of Director	5	5
Administration	4	5
Program Planning & Coordination	2	3
Public Affairs	2	3
Data & Demography	7	9
Intergovernmental Relations	12	17
Systems & Operations	17	28
Compliance	19	51
Total	68	121

In addition to the employees shown above, legal services are provided by the Treasury Department's Office of the General Counsel. Presently, six attorneys and three support employees are so assigned to the Office of Revenue Sharing.

Figure 1



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The cost of operating the Office of Revenue Sharing in Fiscal Year 1974 is approximately $1.6 million. Additional costs of General Revenue Sharing related activities are reflected in the appropriations for the Internal Revenue Service, $2.5 million, and the Bureau of the Census, $3.33 million. These latter amounts represent the costs of data services. The total projected cost of implementing general revenue sharing in Fiscal Year 1975, $8.07 million, is equivalent to 13/100's of one percent of the total funds to be distributed in Fiscal Year 1975.

We are determined not to absorb large amounts of the taxpayers' money just to return money to their communities.

Ours is a particularly dynamic Federal program. It may prove to be the forerunner of a new administrative age at the Federal level of government, a time during which the cost of administering programs will decline, while the value of goods and services delivered increases proportionately.

The Office of Revenue Sharing resolves to administer our program with dependability yet flexibility, in such a way as to recognize and encourage the national unity and local diversity that have made ours the strongest of nations for almost two hundred years.

GPO 875-833

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UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH May 31, 1974

(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	29,501	19	.06
Series J and K-1952 thru 1957	3,754	3,748	6	.16
UNMATURED				
Series E 3/:				
1941	1,932	1,753	179	9.27
1942	8,528	7,720	807	9.46
1943	13,715	12,434	1,281	9.34
1944	16,004	14,442	1,562	9.76
1945	12,608	11,237	1,372	10.88
1946	5,757	4,983	773	13.43
1947	5,493	4,629	865	15.75
1948	5,698	4,727	971	17.04
1949	5,659	4,619	1,041	18.40
1950	4,971	4,004	966	19.43
1951	4,300	3,464	836	19.44
1952	4,509	3,609	901	19.98
1953	5,171	4,061	1,110	21.47
1954	5,282	4,089	1,193	22.59
1955	5,501	4,224	1,277	23.21
1956	5,318	4,053	1,265	23.79
1957	5,020	3,780	1,240	24.70
1958	4,913	3,612	1,301	26.48
1959	4,613	3,357	1,256	27.23
1960	4,646	3,292	1,354	29.14
1961	4,744	3,248	1,496	31.53
1962	4,622	3,086	1,536	33.23
1963	5,205	3,295	1,910	36.70
1964	5,073	3,216	1,857	36.61
1965	4,961	3,126	1,835	36.99
1966	5,376	3,248	2,127	39.56
1967	5,297	3,160	2,137	40.34
1968	5,009	2,959	2,050	40.93
1969	4,720	2,685	2,035	43.11
1970	4,950	2,556	2,394	48.36
1971	5,704	2,543	3,161	55.42
1972	6,292	2,372	3,919	62.29
1973	6,212	1,816	4,397	70.78
1974	1,673	122	1,551	92.71
Unclassified	423	400	23	5.44
Total Series E	199,901	145,922	53,979	27.00
Series H (1952 thru May, 1959) 3/	5,485	4,086	1,399	25.51
H (June, 1959 thru 1974)	9,662	3,383	6,280	65.00
Total Series H	15,147	7,469	7,679	50.70
Total Series E and H	215,048	153,391	61,658	28.67
All Series — Total matured	38,278	38,248	29	.08
All Series — Total unmatured	215,048	153,391	61,658	28.67
All Series — Grand Total	253,326	191,639	61,687	24.35

1/ *Include accrued discount.*

2/ *Current redemption value.*

3/ *At option of owner bonds may be held and will earn interest for additional periods after original maturity dates.*

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

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FOR IMMEDIATE RELEASE

REMARKS OF DR. H. I. LIEBLING
DEPUTY DIRECTOR, OFFICE OF FINANCIAL ANALYSIS
OFFICE OF THE SECRETARY, U.S. TREASURY DEPARTMENT
BEFORE THE UNIVERSITY OF CALIFORNIA, LOS ANGELES,
BUSINESS FORECASTING SEMINAR
LOS ANGELES, CALIFORNIA
ON THURSDAY, JUNE 13, 1974 AT 4:00 P.M. EST

ECONOMIC EXPANSION AND DISINFLATION

My task today is to project aspects of the general economy, which may not conform to what my best hopes and desires for general economic welfare as I see it, might dictate, but which are assessments of what one might expect on the basis of economic analysis.

The latter, of course, is not always a dependable instrument in forecasting economic developments. Typically, it is rather more compelling and ingenious, after the facts become known, when variables emerge which had been neglected or improperly weighted. But, even then, there is considerable room for dispute. Accordingly, there is even more room for disputation when economic forecasts are made, because even the basic facts are still not yet known.

To vary the usual procedure, I present my conclusions first, and later attempt to support them. The general conclusions are two in number:

- The prospects for the economy, during the balance of 1974 and going into 1975, are sufficiently encouraging to expect positive real growth large enough to extend the period which has been dominated more by supply constraints than by any insufficiency in aggregate demand.

- Price growth will be difficult to restrain, partly because the economy will continue to be supply constrained and because demand will continue to be strong. This is so even after allowances for the special factors of modest or no further growth in food and energy prices.

In summary, the United States will be experiencing the pleasures and pain of high employment. But, as a result, insufficient progress towards disinflation will be made to rates previously viewed as acceptable by United States standards.

To provide some perspective to the analysis underlying these conclusions, I start with the proposition that policy makers, and the public generally, did not sufficiently recognize how close to capacity this economy has been operating since late 1972. To a very large extent, this reflected over-reliance on two broad aggregative measures, which I would claim are too gross and misleading for use as guides to economic policy. They may remain in continued use because of their broad general appeal. As a career civil servant, I might note that the irony of this consists in the fact that these measures were first made part of economic policy guides by the "old" administration, and they did not get "orphaned" by the "new" administration, which more or less legally adopted them with some modification.

These two broad but unreliable guides to policy makers are:

- The degree of utilization of the economy's resources as indicated by the actual as a percent of the so-called potential GNP. The latter represents merely

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a calculated long-term growth trend -- itself a rather difficult conceptual and statistical construct, but, in any case, surely not appropriate for a measurement of what actually can be produced in any one year. Incidentally, it is this potential GNP measure which is priced out to provide the full-employment, current dollar GNP upon which full-employment budget receipts are calculated. This issue surely ought to be re-explored.

- The aggregate unemployment rate, a measure which is typically influenced by broad fluctuations in teenage or part-time unemployment. The swing in unemployment, down to 5.0% in April and back up to 5.2% in May, is just one recent example of the unreliability of the aggregate unemployment rate as a guide to policy. In addition, over the longer term, unemployment rates are affected by the composition of the labor force. The recent composition shows higher percentages of young people who typically have higher unemployment rates than other members of the labor force. Based on the current rates of unemployment for each of the components but adjusting the composition of the labor force to that of the middle 1950's, the present unemployment rate of about 5% would be reduced to 4½%.

Against this background of insufficient recognition of how close to capacity the United States has been since late 1972, policies were pursued which failed to recognize how strong the private forces were in the United States' economy. In comparison to the cyclical experience of the post-World War II period, the present economic expansion has been one of the longest in time and was characterized by larger increases in employment and production than any other. Though there were special factors, as noted later, this has been the basic underlying circumstance generating inflation in the United States. It continues to present a problem of achieving satisfactory rates of disinflation.

What has contributed and will contribute further to this strong and durable economic expansion? First, I might suggest that designation of the recent period as a recession, however that might be defined by the National Bureau of Economic Research, Chase Econometrics, Wharton EFA, etc., in fact, would be unjustified from my point of view. Low or negative real GNP growth need not mean the under-utilization of capacity in the economy resulting from insufficiency of demand -- which is the standard attribute of recession. When negative real growth results from supply constraints, the economy is registering an entirely different condition -- one for which such an economic policy as a tax reduction surely would be inappropriate. These supply constraints have developed on a scale unprecedented in the post-war period. There are, of course, a few areas where production could be expanded further -- notably in the automobile industry -- but by and large, the economy is undergoing strain in delivering the total volume of goods and services being demanded in the United States.

I have attached a table to this talk, which illustrates the difference in the behavior of many types of pressure variables in the economy. Assuming that November 1973 was a cyclical peak of some sort, the performance of these variables is very different than in the two preceding recessions. Certainly, the employment trends since last November appear very different. In May, six months after the so-called November 1973 peak, private nonfarm employment was slightly higher, as jobs in non-energy related industries increased more than the declines in energy-related sectors, such as gas, service stations, airlines, motor vehicles, etc. This is in contrast with declines in employment registered in the two previously officially designated recessions. Industrial production since last November appears to have declined as in the two former recessions, but that is due to autos, at least partly energy-related, and to energy itself. In addition, supply factors have generated output reductions in steel and other basic industries. For example, steel output is down since November, due to a metallurgical coal shortage. As a result, steel companies are turning down orders. That surely ought to be considered differently than the steel output declines in former recessions.

But, beyond the measures of current economic activity are the trends in new and unfilled orders, the strength in capital goods spending (as indicated by spending anticipation surveys and capital appropriations), the long delivery times in obtaining materials, etc. The differences from the past two recessions are expressing the fact that in many areas, the production growth possibilities of the economy have diminished. Aggregate demand has remained strong, as the demand for investment has offset by far the sluggishness in some of consumer purchasing.

How do these figures of pressure on the economy reconcile with the 6.3% annual rate decline in real GNP just reported for the first quarter of the year? The fact is that there have been slippages in some sectors of the economy. So far, they have been mainly oil or energy-related, although a case could be made that the automobile and the housing sectors were only partly energy-related and that demand had softened some in these two areas even before the energy problem. But even so, these have been far outweighed by ongoing positive growth in the main body of the economy.

If the real GNP figures for the first quarter are disentangled, they show the following (see attached chart):

- Taking account only of the most obvious supply or energy-related constraints in the economy -- the automobile sector and spending on gas and oil -- real GNP growth in the first quarter was a positive 1%, not a negative 6.3%, annual rate.

- Total real consumer spending has been declining. But, here again, if energy-related spending on cars, gas, oil, and utilities are netted out, real consumer spending in the first quarter of this year did not <u>decline</u>; it <u>rose</u> at an annual rate of 3.5%.

- Sluggish real spending by business on fixed investment in the first quarter also has been noted. But, here too, an annual rate of <u>decline</u> of 3% is converted

into an increase of 7%, if the energy-affected purchases on autos and trucks are netted out. (In terms of current dollars, the spending advances were 7% and 16%, respectively.)

- The capacity utilization rate in the materials-producing industry, as measured by the Federal Reserve, appears to have declined in the first quarter. But steel and petroleum refining are both part of this statistic, and they have been troubled by inadequate raw materials supply. An adjustment for these two industries would show no change in the very high operating rate for basic materials in the first quarter of 1974.

Looking now at the second quarter, the early returns already are indicating a bottoming out from negative real growth to about no change. The most recent figures would support that scenario. In April, industrial production rose 0.4%, and not only because of increased automobile output as some have said. Employment scored a sizeable May gain. Retail sales increased 1.0% in May, on top of a slight advance in April and a very large March increase. There is a chance of a small increase in real GNP in the second quarter. After that, sizeable positive growth in the second half of the year and going into 1975 is my forecast.

To sum up, a strong economic recovery appears on the way. Its sources of power will be the same as those which have continued to sustain the underlying vigor of the economy throughout the energy situation. They are the following:

- The United States is in the midst of a capital goods boom, whose end is not in sight. It will take several years before the deficiencies in our capacity to produce can be met in the energy and basic materials and even finished goods sectors. On top of that, capital expenditures will be required to meet the new environmental standards.

- Inventories are low in many industries and added production will be needed to bring them into better balance.

- Export markets will continue to grow.

- Housing activity will expand, though not as much as had been forecast earlier.

Perhaps most would agree with the general outline of some positive real growth in the months ahead, if not with very large increases. But I would argue that if growth rates are very low, the supply constrained economy again would represent the principal determinant of low growth -- barring an unlikely and unexpected turn to a very harsh monetary policy that would serve to weaken aggregate demand substantially. The deficiencies in supply have been building for a long time and they will not quickly vanish.

Turning to the magnitude of the price advances which may be expected in 1974, the prospect is not bright, although a combination of fortunate circumstances might ameliorate this outlook. The implication for disinflation of an economy which is headed towards strong real growth in the rest of 1974 would point to greater pressure on resources, as well as a less favorable atmosphere from the demand side with respect to reduced pressure on prices. True, the economy will benefit from any realization of hopes that food prices might decline, or rise less. Energy prices might also stop rising. That will be a second favorable factor. The third might be the decline in prices of raw materials that are internationally traded, which has become apparent over the past several weeks, though I would warn that some part of that was seasonal. If all three of these developments in fact do occur, that will be all to the good.

However, there is a darker side to the path of disinflation, which consists of the following:

- The easing of raw material prices has not proceded very far. Even if it did, the higher costs at the peak or even below peak level have not had much opportunity to work their way through the cost-price channels to final product prices. The transmission of these higher costs throughout the price structure might accelerate in the immediate

months ahead because discontinuance of the price control program means that companies, which played the game under the rules though chafing under the restraints, are now free to make the price adjustments to market forces. That appears to be one of the explanations for recently accelerated increases in wholesale prices of industrial products.

- The disposition of workers will increase to regain or at least maintain real income by relatively large wage advances. Should compensation per manhour rise by more than the 8% to 9% annual rate underlying the "standard" forecast, larger pressures on prices than have been expected will be developing. Recent wage settlements have not supported a pattern of moderation. Should future settlements be made on the basis of these higher rates, it is clear that a basic assumption which is necessary for a projection of moderating the consumer price index to the neighborhood of 7% to 8%, annual rate, by the fourth quarter of 1974, will need to be revised upward.

Econometric analysis would indicate that for every one percent change in compensation per manhour more than the 8% to 9% advance that has been projected, an additional two-thirds of one percent would be added to the GNP inflation rate, profits and other non-labor costs remaining unchanged. That means that instead of a 6% or so annual rate rise in the private GNP deflator that had been expected by the end of the year, a compensation per manhour rise of 10% to 11% would generate another 1½% or so increase on top of that. This also would indicate some upward revision in the rate of increase that has been forecast for consumer prices toward the end of this year. (The impact of smaller or no gains in retail food prices, should that develop by the end of the year, would be greater on the consumer price index than on the GNP deflator, because the weight of food in the former is larger than in the latter.) All of this, of course, depends on whether the rise in compensation per manhour at these higher rates will

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in fact develop -- some partial evidence does point in this direction already. It is a prospect that should not be ruled out of any price forecast.

Rising real growth in the second half of 1974 will bring some productivity advance, which might soften the impact of large wage increases on prices. In addition, profits might bear some of the brunt of cost increases. On the other hand, rising growth would appear to be a somewhat more favorable environment for passing on cost increases. Both cost-push and demand-pull might be operating simultaneously.

A period of rising and strong economic growth is not optimal for a disinflation process. It provides a favorable environment for cost-pressures on the wage side and demand-pull pressures on the price side. Accordingly, the economic policies aimed at restraining the Federal budget and monetary expansion would appear to be the classical and appropriate remedy. Restraint in the private sector would also appear to be required.

Studies indicate that fiscal and monetary policies take a while -- indeed, a long while -- to exert significant influence on the course of prices. They nevertheless need to be pursued vigorously. They would provide the minimum and necessary conditions for restraint in private sector demands, and in the consequent wage and price decisions that might develop in this environment. In addition, measures to make price and labor markets work more effectively need to be reviewed. There are many other rigidities in the system which need to be re-examined.

Inflation is a game with few, if any, winners. A national consensus on the best means of playing this game should have as a prerequisite general acceptance of the basic economic principles that real standards of living can advance only by the productivity gains of an economy. That might be a good starting point for a national debate.

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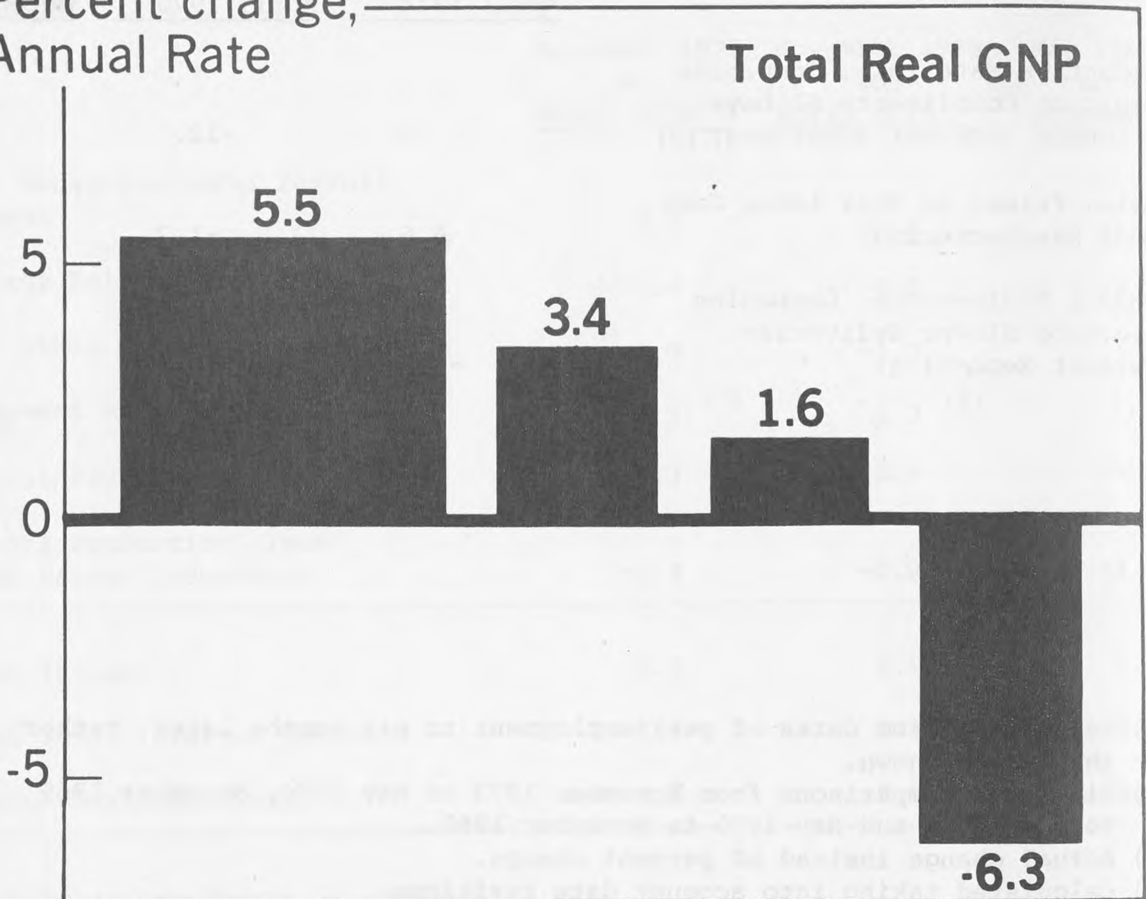
ECONOMIC CHANGES IN RECESSIONS
(Percent Changes)

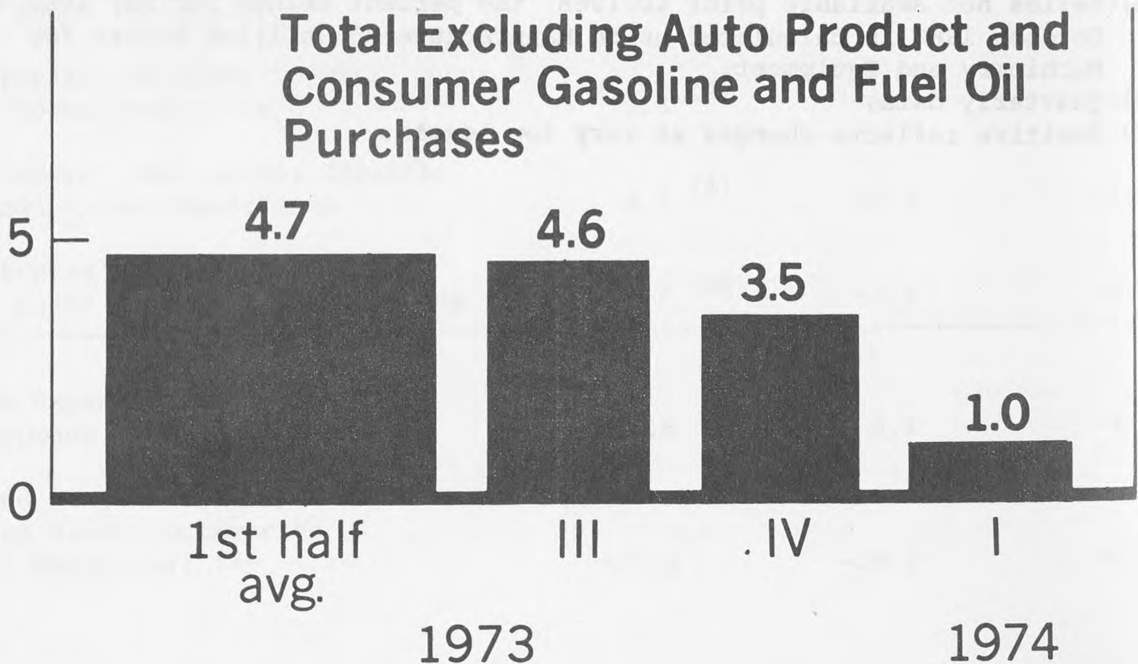
	November 1973 to April 1974	November 1969 to April 1970	May 1960 to October 1960
Private Nonagricultural Payroll Employment [1]	0.2	-1.2	-1.3
Energy Related Industries	-1.4	-1.5	-2.1
All Other Industries	1.0	-1.2	0
Unemployment Rate (2)	0.5 (3)	1.2 (3)	1.0 (3)
Industrial Production	-2.2	-2.4	-3.0
Industrial Production, less Auto and Energy Industries	-1.3	-2.9	-3.6
Personal Income	2.7	4.8	0.8
Sales of Retail Stores, Deflated	-1.9	0.8	-0.2
Short-term Business Credit	9.3	2.8	2.1
Manufacturers' New Orders, Durable Goods Industries	5.5 (4)	-7.4	-5.6
Manufacturers' Unfilled Orders, Durable Goods Industries	9.2 (4)	-6.8	-2.8
Manufacturers' New Orders, Capital Goods Industries, Nondefense	4.5 (4)	-9.2	-6.9
Manufacturers' Unfilled Orders, Capital Goods Industries, Nondefense	12.7 (4)	-7.3	-4.2 (5)
Business Expenditures on New Plant and Equipment (6)	6.6	3.1	-4.8
Purchased Materials, Companies Reporting Slower Deliveries (Percent Reporting) (2)	-13.4	-29.8	-6.8

	November 1973 to April 1974	November 1969 to April 1970	May 1960 to October 1960
Production Materials, Companies Reporting Commitments 60 Days or Longer (Percent Reporting) (2)	0	-12.3	-9.1
Ratio, Prices to Unit Labor Cost Index Manufacturing	6.6	-1.7	-0.3
Vendors Performance, Companies Reporting Slower Deliveries (Percent Reporting)	-7.7	-16.1	21.9 (7)

(1) Calculated from dates of peak employment to six months later, rather than dates shown.
(2) Six month comparisons from November 1973 to May 1974, November 1969 to May 1970, and May 1960 to November 1960.
(3) Actual change instead of percent change.
(4) Calculated taking into account data revisions.
(5) Series not available prior to 1968; the percent change for May 1960 to October 1960 is calculated using Manufacturers' Unfilled Orders for Machinery and Equipment.
(6) Quarterly data.
(7) Positive reflects changes at very low levels.

REAL GNP GROWTH PATHS





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June 17, 1974

MEMORANDUM TO CORRESPONDENTS:

WILLIAM R. WEBER RESIGNS
TO ACCEPT SENATE POST

William R. Weber has resigned from the Treasury Office of Public Affairs, effective June 30, to become Assistant Counsel to the U.S. Senate Committee on Banking, Housing and Urban Affairs. Mr. Weber's principal responsibility in his new position, beginning July 1, will be to serve as Counsel to the Subcommittee on Financial Institutions, chaired by Sen. Thomas J. McIntyre, D-N.H.

Since joining the Treasury in 1970, Mr. Weber, 31, has been primarily responsible for public affairs operations in all areas relating to Treasury's international and fiscal operations. In this capacity, Mr. Weber has been closely associated with Under Secretary for Monetary Affairs Paul A. Volcker and his staff.

A native of Michigan, Mr. Weber holds the degrees of A.B. in Economics and J.D. from the University of Michigan, Ann Arbor.

From 1968 to 1970, Mr. Weber was a judicial clerk with the Michigan Court of Appeals, Detroit.

Mr. Weber is married to the former Jean Antonides of Chicago, Illinois. The Webers reside in Alexandria, Virginia.

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FOR IMMEDIATE RELEASE June 17, 1974

MATTHEW J. MARKS TO RETIRE
FROM GOVERNMENT SERVICE

Secretary of the Treasury William E. Simon announced today with "great reluctance and deep personal regret" the resignation of Matthew J. Marks, of Falls Church, Virginia, as Deputy Assistant Secretary of the Treasury for Tariff and Trade Affairs. Mr. Marks' primary responsibility was administering the antidumping and countervailing duty laws. He will retire from Government service on June 30 and enter private law practice.

In commenting on the resignation, Secretary Simon said, "I have never met a person in government service with more unrelenting dedication to the task at hand or more fervent loyalty combined with unshakable integrity than Matt Marks. Through his perceptive handling of many sensitive cases, he has demonstrated that the antidumping and countervailing duty laws can be administered both firmly and fairly. When a career man of Matt's stature leaves the Government, the country as well as the Treasury feels the loss. We shall miss his wise counsel."

Mr. Marks joined the Treasury in December 1941 and served continuously with the Department except for a two-year tour with the Department of State and AID from 1962-1964.

He was named Deputy Assistant Secretary on October 10, 1973. Prior to that he had served in the capacity of Deputy to the Assistant Secretary under three successive Assistant Secretaries.

During 1956-1960, Mr. Marks handled the responsibilities of the Under Secretary of the Treasury for all matters pertaining to the Operations Coordinating Board (OCB). The OCB provided interdepartmental coordination of national security policy as laid down by the National Security Council.

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Among the Treasury posts Mr. Marks held prior to 1956 were those of Chief of Enforcement, Foreign Assets Control; U.S. Treasury Representative in Brussels, Belgium; and Senior Attorney in the Office of the General Counsel, specializing in international financial problems.

Mr. Marks was born in New York City in 1914. He was graduated with a B.A. degree, summa cum laude from Dartmouth College in 1936 and was named to Phi Beta Kappa. He holds a Juris Doctor degree from Columbia Law School, 1941, and attended the National War College in 1955-56. He is a member of the Bar of the State of New York and of the American Bar Association.

He has written articles in the Columbia Law Review and the Department of State Bulletin.

In January 1969 Mr. Marks was presented the Exceptional Service Award by the Secretary of the Treasury.

Mr. Marks is married to the former Simone Van de Meulebroeke of Brussels, Belgium. They have one son, Ramon, who is presently a student at the University of Virginia Law School. Mr. and Mrs. Marks reside at 5938 Sixth Street, Falls Church, Virginia 22041.

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FOR IMMEDIATE RELEASE JUNE 14, 1974

Office of the White House Press Secretary

THE WHITE HOUSE

The President today is establishing the Committee on Energy. The Committee will be responsible for coordinating the development of energy policy within the Executive Branch and will be a Cabinet-level energy policy advisory body to the President.

The following are being name . as members:

The Secretary of State (Henry A. Kissinger)
The Secretary of the Treasury (William E. Simon)
The Secretary of the Interior (Rogers C. B. Morton)
The Secretary of Commerce (Frederick Dent)
The Secretary of Transportation (Claude S. Brinegar)
The Counsellor to the President for Economic Policy (Kenneth Rush)
The Director of the Office of Management and Budget (Roy L. Ash)
The Chairman of the Council of Economic Advisers (Herbert Stein)
The Administrator-designate of the Federal Energy Administration- (John C. Sawhill)
The Administrator of the Environmental Protection Agency (Russell E. Train)
The Chairman of the Atomic Energy Commission (Dixy Lee Ray) (The Administrator of the Energy Research and Development Administration will assume this position if and when created by Congress,)

Other agencies and departments will participate on issues directly affecting their areas of responsibility.

The President is designating Secretary of the Treasury, William E. Simon as Chairman of the Committee on Energy.

The creation of this Committee provides a formal mechanism to:

develop alternative solutions and make recommendations on major energy problems by bringing to bear the collective expertise and resources of the Executive Branch;

develop energy policy recommendations on matters that cut across individual agency responsibilities;

provide a ready means for coordination with respect to energy matters among key Administration officials;

consider policies dealing with energy conservation as well as policies designed to increase energy supplies.

The Committee on Energy assumes all the functions and purposes of the Energy Emergency Action Group which was created last fall and is hereby abolished.

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RELEASE UPON DELIVERY June 17, 1974

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REMARKS BY DAVID H. STOUGHTON
ATTORNEY/ADVISER, OFFICE OF THE GENERAL COUNSEL
DEPARTMENT OF THE TREASURY
BEFORE THE
SIXTH NATIONAL INSTITUTIONAL TRADER CONFERENCE
MONDAY, JUNE 17, 1974, 10:15 A.M., EDT

THE ROLE OF THE DEPARTMENT OF THE TREASURY IN THE CONSIDERATION OF SECURITIES REFORM LEGISLATION

I am honored to have this opportunity to participate in the Sixth National Institutional Trader Conference sponsored by Institutional Investor.

The question this panel is to address is "What will the ultimate securities legislation say?" Some of you may wonder why the Department of the Treasury is represented on this panel. Treasury's interest in the pending securities legislation may not be as readily apparent as that of Congressional Committees and the Securities and Exchange Commission. In addition, the nature of the Department's involvement in the consideration of the securities legislation -- which has been comparatively recent -- may not be known to some of you.

Therefore, in my introductory remarks I would like to explain briefly Treasury's interest and role in the

ongoing process of reform of our securities markets. A little more than a year ago Treasury became concerned by several disturbing developments in the operations of our capital markets, in particular, our markets for equity capital. These included widespread failure of brokerage firms, loss of public confidence, and the effect of the steady growth in institutional trading on the present regulatory framework for and the operation of our securities markets. We were also aware that both Houses of Congress had been extensively studying these problems, and had proposed legislation that would effect the most significant reform of our securities markets since the 1930's.

In view of these developments, Secretary Shultz felt it was important that Treasury develop views on a number of issues affecting our capital markets. Treasury has a principal responsibility in such areas as international trade and investment, taxation, and the program of controls on the international flow of capital. Further, our capital markets are of prime concern to us because of the financial needs of the Federal Government.

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For these reasons, Treasury undertook an effort last fall to gain a better understanding of the issues and formulate sound judgments. In this effort, we were fortunate to have the benefit of the excellent work that had been accomplished by the Subcommittees of Senator Williams and Congressman Moss; and by the Securities and Exchange Commission. In addition, Treasury also benefited from informal discussions with representatives of all segments of the securities industry and of the banking industry. James Lorie, Professor in the Graduate School of Business at the University of Chicago coordinated our efforts and contributed his own vast knowledge of the industry.

Our effort culminated in the publication of a statement on Public Policy for American Capital Markets, which was prepared for Treasury by Professor Lorie. This statement sets forth basic objectives of public policy for our capital markets. It addresses, in light of those objectives, a broad range of issues including the structure and rules of the central market, the role and impact of institutional investors, taxation, and international capital flows.

The statement endorses the Securities and Exchange Commission's present policy of establishing a central market for listed securities in which the various elements of the market place will be linked together by a communications system and subject to a common regulatory framework. The statement further supports the Commission's policy of requiring fully competitive commission rates after April 30, 1975.

While the Lorie report does not represent an official Treasury position, former Secretary Shultz and Secretary Simon have stated that they support its basic conclusions.

The publication of the Lorie report marks the beginning of Treasury's work in this area. The Department has been, and intends to continue, working with the Congress and other interested parties in obtaining passage of securities legislation. We feel that the Senate, in S. 2519 and S. 2058, has passed sound legislation that would generally implement the policy recommendations of the Lorie report concerning the development of the central market system. Congressman Moss' Subcommittee has likewise developed, as a result of lengthy and intensive study, a comprehensive securities bill, H.R. 5050, which we are now reviewing.

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Consideration of the Moss bill, however, has been delayed. A few of its provisions, such as those dealing with competitive rates and institutional membership, have generated controversy. A more recent source of controversy has been the question whether the SEC should have the authority to prohibit third market trading if it should find such action necessary to restore or maintain the orderliness or fairness of the market for listed securities during the period after fixed rates are eliminated and before the central market is established. We hope that these and other problems can be overcome and the Subcommittee is able to report a bill soon.

We feel that it is important that legislation effecting the necessary reform be enacted as soon as possible in order that the uncertainty that plagues the securities industry may be removed. Only when the rules of the new market system are firmly established can the industry begin to make the adjustments necessary to restore its financial strength and competitiveness, a process which is essential if we are to have strong financial markets capable of satisfying the capital needs of our economy at the lowest cost.

Of course, I recognize that the most serious problem facing the securities industry is inflation. Treasury is committed to policies that we feel will reduce inflation and put the nation on the road to stable economic growth. These policies include the encouragement of more production, in such fields as energy, agricultural products and natural resources, and the utilization of a proper balance of fiscal and monetary policy.

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June 17, 1974

FOR RELEASE 6:30 P.M.

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.6 billion of 13-week Treasury bills and for $1.9 billion of 26-week Treasury bills, both series to be issued on June 20, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing September 19, 1974		26-week bills maturing December 19, 1974	
	Price	Equivalent Annual Rate	Price	Equivalent Annual Rate
High	97.940	8.149%	95.887	8.136%
Low	97.931	8.185%	95.862	8.185%
Average	97.933	8.177% 1/	95.867	8.175% 1/

Tenders at the low price for the 13-week bills were allotted 100%.
Tenders at the low price for the 26-week bills were allotted 2%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 40,770,000	$ 30,140,000	$ 15,555,000	$ 13,555,000
New York	4,148,835,000	2,203,350,000	3,535,770,000	1,685,760,000
Philadelphia	33,045,000	29,045,000	60,795,000	11,895,000
Cleveland	77,595,000	41,020,000	78,100,000	26,580,000
Richmond	69,100,000	38,570,000	44,510,000	18,210,000
Atlanta	43,590,000	27,830,000	32,740,000	20,790,000
Chicago	258,320,000	85,455,000	229,250,000	33,025,000
St. Louis	59,395,000	24,595,000	55,625,000	18,375,000
Minneapolis	39,845,000	13,740,000	21,765,000	5,765,000
Kansas City	46,240,000	39,495,000	35,015,000	25,940,000
Dallas	59,700,000	18,730,000	29,595,000	14,595,000
San Francisco	156,765,000	48,235,000	121,700,000	26,000,000
TOTALS	$5,033,200,000	$2,600,205,000a/	$4,260,420,000	$1,900,490,000b/

a/ Includes $ 437,775,000 noncompetitive tenders accepted at average price.
b/ Includes $ 257,020,000 noncompetitive tenders accepted at average price.
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 8.47 % for the 13-week bills, and 8.65% for the 26-week bills.

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FOR IMMEDIATE RELEASE 307 June 18, 1974

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $4,500,000,000, or thereabouts, to be issued June 27, 1974, as follows:

91-day bills (to maturity date) in the amount of $2,600,000,000, or thereabouts, representing an additional amount of bills dated March 28, 1974, and to mature September 26, 1974 (CUSIP No. 912793 UR5), originally issued in the amount of $1,801,155,000 (an additional $100,065,000 was issued on June 5, 1974), the additional and original bills to be freely interchangeable.

182-day bills for $1,900,000,000, or thereabouts, to be dated June 27, 1974, and to mature December 26, 1974 (CUSIP No. 912793 VE3).

The bills will be issued for cash and in exchange for Treasury bills maturing June 27, 1974, outstanding in the amount of $4,302,920,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,392,375,000. These accounts may exchange bills they hold for the bills now being offered at the average prices of accepted tenders.

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, June 24, 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 and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions

(OVER)

with respect to Government securities and borrowings thereon may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on June 27, 1974, in cash or other immediately available funds or in a like face amount of Treasury bills maturing June 27, 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
OFFICE OF REVENUE SHARING
WASHINGTON, D.C. 20226

NEWS

TELEPHONE 634-5248

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FOR IMMEDIATE RELEASE
Thursday, June 20, 1974

ACTUAL USE REPORTS REQUESTED BY OFFICE OF REVENUE SHARING

More than 38,000 states and general-purpose units of local government are being asked to report their actual uses of general revenue sharing funds on forms distributed today by the Treasury Department's Office of Revenue Sharing.

By September 1, 1974, all recipients of the money must report in what areas of activity they have used the shared revenues they spent or obligated since June 30, 1973, including any interest earned on the money. In addition, the chief executive of each recipient government must certify that his jurisdiction's shared revenues have been spent in accordance with anti-discrimination and other provisions of revenue sharing law.

The Actual Use Reports must be published locally in newspapers of general circulation and the news media, including bi-lingual news media, must be informed of the publication.

(OVER)

"Governments that have failed to file Actual Use Reports will not receive the first quarterly payment of fiscal year 1975 funds in October 1974, as scheduled," Graham W. Watt, Director of the Office of Revenue Sharing announced today.

A summary and analysis of information contained in the reports will be prepared and released in the late fall of 1974.

Actual Use Reports are required annually of all recipient governments, according to Section 121 of the State and Local Fiscal Assistance Act of 1972 that established general revenue sharing. The reports are intended to provide the Office of Revenue Sharing and citizens of recipient jurisdictions with information about the amounts of shared revenues that have been expended in various categories of activity.

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

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FOR RELEASE 1:15 P.M., EDT
THURSDAY, JUNE 20, 1974

REMARKS BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
AT THE
NATIONAL CONFERENCE FOR STATE, COUNTY, AND
CITY CONSUMER OFFICE ADMINISTRATORS
RAMADA INN, WASHINGTON, D.C.
THURSDAY, JUNE 20, 1974

I am extremely pleased to be here today at this first Federally-sponsored meeting of state and local consumer affairs officers. Virginia Knauer is to be congratulated for this fine idea and for her continuing efforts on behalf of consumer welfare.

At Treasury we take pride in having developed the Truth in Lending legislation and are proud now to stand with Virginia Knauer in support of Truth in Savings. A little later I will comment on the general revenue sharing program which is our closest point of contact with state and local government. Other important Treasury programs for consumers are operated by our friendly fellows in Customs and the Internal Revenue Service. I am here today, however, not on Treasury business, but to welcome you and wish you every success in your good work.

Periodically each of us is reminded that we are all consumers and face some common frustrations. It may be the appliance that fails, or the runaway computer that doesn't register a consumer payment, or any one of a long list of other possibilities. Some are minor irritations, others can be much more than that. And, at the present time, all the irritations are aggravated by an unacceptably rapid rate of inflation that is chewing up the family budget.

At the worst, all these things tend to open a gulf between the public and its government. There is a feeling from the public side that no one really cares. In the

area of consumer affairs, all of you are living proof that someone does care and is prepared to work hard to improve things. I hope that this session and many more like it can help to make government at all levels much more responsive to consumer needs. My own experience while working on the energy problem was that there is a deep spirit of public patriotism and a widespread desire to cooperate in worthwhile voluntary efforts. The public wants its government to be responsive.

In particular, consumers want their government to be much more responsive to the problem of inflation. At Treasury, as elsewhere in government, we are deeply concerned over inflation and determined to deal with it effectively. Consumers also want their government to be much more responsive to a wide range of other problems. You are out there on the firing line and know this to be the case. Too often in the past, the Federal reaction to a problem has been to crank up a new program and see how much money could be spent before the end of the fiscal year. That free spending era is now drawing to a close.

It is drawing to a close because the control of inflation demands a closer degree of restraint over Federal expenditures. It is drawing to a close also because we have learned through hard experience that many Federal spending programs fail to achieve tangible, practical benefits. However the problems remain and they must be dealt with.

The keynote of President Nixon's New Federalism is that each level of government should focus its attention on functions most appropriate to its level. In the past, the Federal Government has frequently tried to do too much, and has ended up by accomplishing too little. It is a long way from Washington to Main Street, much farther than the average bureaucrat can see. Problems are different in different places and need special solutions.

One important element in the New Federalism program is general revenue sharing. This is a Treasury Department program and one of which we are proud. Revenue sharing became law in the fall of 1972 with bipartisan support. Each year the program provides $6 billion of Federal tax dollars to states and localities to use as they see fit. There are almost no strings on the money and no need to wear a path to Washington to get a grant. In only a little

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more than a year and a half, some $12 billion has been paid to states, counties, cities, towns, townships, Indian tribes, and Alaskan native villages in every part of this great country.

Already I begin to sound like the Czar of a new and rapidly expanding Federal spending program. But, in fact, that $12 billion has been distributed by a highly competent administrative and clerical staff of less than 100 people. The success of this or any other program is, of course, never properly measured in terms of billions of dollars or numbers of Federal employees, but in the impact it has on people's daily lives.

In testifying earlier this month before Senator Muskie's Intergovernmental Relations Subcommittee of the Senate Committee on Government Operations, I drew attention to some specific examples of what general revenue sharing is doing. Let me briefly note a few of those examples on this occasion:

Sheffield, Alabama: revenue sharing has made it possible for this small Southern city to establish a mobile health unit which brings care to those who cannot walk to the health agency. Low-income families are taught new ways to take care of their homes. Recreation programs have been revitalized. There are basketball and tennis courts, swimming pools and new lights for the municipal ball park. The old library has been completely renovated and a new fire station is being built. Furthermore, the city is sponsoring an experiment to improve blighted areas. An all-black 5-man board will go into black areas, prescribe what has to be done to improve the homes, and it will contract with black construction firms to make the needed improvements.

Burlington, Vermont: a local company donated an old building and the city rewired it. Result--a center for the elderly. The city also built a new ice rink, bought a beach house and new equipment for the city's parks.

Out West, people had different ideas on how to spend their revenue sharing money. In Santa Clara County, California, three halfway houses were funded to treat alcoholics. A new rat control program was started. A community action program is guiding high school dropouts back to school or meaningful employment. And, summer employment will be more readily available as a result of revenue sharing.

In Kershaw County, South Carolina, a child development program was established to help economically underprivileged children get the same start on life as other kids.

In Lee County, Iowa, the citizens of this corn county found that revenue sharing meant that they were spared an increase in property taxes and were able to meet their number one need: the care of the elderly.

In South Bend, Indiana the city allocated $110,000 for a methodone treatment center. Architecture and design fees for a new civic center were paid for with revenue sharing money.

Finally in Hutchison, Kansas $10,000 went to a "meals on wheels" program which serves one hot lunch a day to the old, sick poor who are unable to prepare their own meals. Also, Hutchison bought two used vehicles and installed insecticide sprayers on them so they can crisscross the city releasing a foggy mist which kills flies and mosquitoes.

These are but a few of the examples that might be cited. I am most familiar with our programs under general revenue sharing, but your own activities would surely provide ample additional evidence that government does care and is responsive to public needs.

I was struck by the diversity of our revenue sharing programs and their down-to-earth nature. Revenue sharing helps people most by letting them decide what needs take priority in their own communities. There is no way that the Federal Government can spend this money more wisely than the local governments that see and feel the needs of their citizens daily.

It seems to me that there are fairly close parallels between our revenue sharing experience and the important work in the field of consumer affairs in which all of you are engaged. We are both trying to insure that big government can deal successfully with a wide range of problems in many different locations and situations. The work is extremely important because of the corrosive effects that can result from a lack of responsiveness on the part of government.

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Our revenue sharing program depends ultimately for its success upon the ability of local officials to be alertly responsive to the needs of their own communities. Similarly, I am sure that much of the success of present and future programs in the consumer affairs area will depend more upon your dedication and good judgment than it will upon initiatives from Washington although we in government can assist you in these efforts.

There is a final parallel that occurs to me between revenue sharing and your work in the field of consumer affairs. In both areas there is need for a generally accepted code of good conduct and certain rules of the game. Within this framework, however, a great deal of latitude needs to be left for individual initiative. In the revenue sharing program there are certain minimum requirements in terms of civil rights, financial management, public information and related matters. Aside from that, the President and the Congress have given state and local officials the responsibility for setting priorities and deciding on the needs to be met. In the area of consumer affairs, there also need to be generally accepted standards of good behavior--enforced by law in some cases--and given additional meaning by activities such as your own. But we must and do depend heavily upon the force of competition in free markets to help insure good performance for the consumer.

By and large, I think we can count on our existing mechanisms--and new channels of communication such as we are opening here--to do a reasonably good job of protecting the consumer interest. Consumers themselves are alert to the problem areas and quick to direct attention to them. But consumers are relatively powerless to do much to check the current inflationary trend. For that, they must depend upon their Federal Government.

We are now in the unfamiliar and unenjoyable position of seeing our rate of inflation running to two digits. It is small comfort that inflation is worldwide. We must deal with the problem as we find it here. The factors contributing to the present inflation include the unique convergence of boom conditions in all the industrial countries, shortages of food from natural causes, and a sudden shift in the energy balance. In our own case, the roots of inflation can be traced back to a decade ago.

This Administration recognizes inflation as our number one economic problem. The harmful effects of inflation are spread out for all to see. Real wages and real income decline in the face of rapidly rising prices. Corporate profits rise in dollar terms but much of this reflects an illusory element of inventory profits. The real value of corporate depreciation allowances shrinks with rising prices which imperils the capital formation process upon which future growth depends. Interest rates are driven up by rising prices and the housing industry faces new difficulties. And, all of our people who find themselves on fixed and semi-fixed incomes bear a heavy burden.

There is no quick and easy solution to the inflation problem. We have tried price and wage controls and are left with a much more rapid rate of inflation than before. The only answer is the continued application of fiscal and monetary restraint for a sustained period of time. This means, in my opinion, aiming at a balanced Federal budget and relying upon the Federal Reserve System to hold the flow of money and credit to appropriate proportions.

It means, I must also say, resisting the recent calls for a reduction in taxes. Tax reduction might seem in superficial terms to benefit the consumer. But putting more money in peoples' hands will not put more food on their tables or more gasoline in their tanks. Most sectors of the economy are operating at full capacity and shortages of materials are widespread. The extra spending generated by a tax cut would only mean more money chasing an already limited supply of goods. That is a race we can never win.

A tax cut would also put more strain on our financial markets. The Treasury would have to borrow the money it did not collect in taxes. This would place further upward pressure on interest rates and worsen the sitution of the housing industry. There would be a further squeeze on capital funds for new productive capacity. In short, a tax cut would worsen our inflationary situation which is already far beyond what we should accept.

We should not ignore the favorable aspects of the economic situation. In the past year, employment has increased by 2 million persons. The unemployment rate has edged up slightly but some such increase was unavoidable. We weathered the oil embargo surprisingly well, certainly

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without the calamitous consequences that were so widely predicted. Industrial production has risen for the past two months. Business spending on capital equipment continues its strong advance. Indeed, there are many elements of strength in the current economic situation. The one overriding, serious source of difficulty is our high rate of inflation.

I am confident, however, that with careful application of fiscal and monetary restraint, the current inflation will, over time, run its course. Return to a reasonable degree of price stability is essential if we are to achieve our national goals.

The best interests of consumers can be successfully pursued only by putting an end to rapid rates of inflation. Meanwhile, I know that we can count on all of you to be vigorous advocates of the consumer interest. Best wishes for a successful confererence.

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

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FOR IMMEDIATE RELEASE June 20, 1974

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 to be delivered July 2, 1974, and to mature July 1, 1975 (CUSIP No. 912793 VM5).

The bills will be issued for cash and in exchange for Treasury bills maturing July 2, 1974, outstanding in the amount of $1,802,005,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $954,965,000. These accounts may exchange bills they hold for the bills now being offered at the average price of accepted tenders.

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Wednesday, June 26, 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 and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions

with respect to Government securities and borrowings thereon may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on July 2, 1974, in cash or other immediately available funds or in a like face amount of Treasury bills maturing July 2, 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.

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

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FOR IMMEDIATE RELEASE June 20, 1974

PENNY DRIVE EXTENDED FOR CHILDREN

Mrs. Mary Brooks, Director of the Mint, announced today that she is extending Penny Redemption Month in response to numerous requests from children.

Children, and all others, turning in $5.00 or more in pennies through the summer will be eligible to receive the Treasury Department's Special Citation.

Names to be cited for the award should be sent to Mrs. Mary Brooks, Director of the Mint, 55 Mint Street, San Francisco, California 94175.

Response to the Mint's drive to return the penny to circulation has been overwhelming. Banks and retail establishments throughout the nation are actively supporting the campaign and encouraging their customers to bring in their pennies for deposit or exchange for other currency or merchandise.

There is no shortage of a supply of pennies and the price of copper has retreated, closing at 99 cents a pound on June 18, 1974. During the past 15 years, the Mint has poured out 70 billion pennies and 30 billion of these are estimated to be in the "hidden" category. These are the pennies the Mint is asking citizens to put back to work in the market place.

One billion pennies returned to circulation will save the taxpayers $10,000,000.

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

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FOR IMMEDIATE RELEASE June 20, 1974

TREASURY ANNOUNCES NON-POWERED HAND TOOLS
FROM JAPAN
ARE BEING SOLD AT LESS THAN FAIR VALUE

Assistant Secretary David R. Macdonald announced today that non-powered hand tools from Japan are being, or are likely to be, sold at less than fair value within the meaning of the Antidumping Act of 1921, as amended. These non-powered hand tools are wrenches, pliers, chisels, punches, screwdrivers, hammers, metal-cutting snips and shears, wheel and gear pullers, valve tools, and body and fender tools. They are the type used by mechanics, plumbers, etc. Notice of the determination will be published in the Federal Register of June 21, 1974.

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

A notice of "Withholding of Appraisement" was issued on March 25, 1974 which stated that there was reasonable because to believe or suspect that there were sales at less than fair value. Pursuant to this notice, interested persons were afforded the opportunity to present oral and written views prior to the final determination in this case.

During the period of February 1, 1973 through January 31, 1974, imports of non-powered hand tools were valued at approximately $37,200,000.

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JUNE 21, 1974

MEMORANDUM FOR THE PRESS:

In response to questions about this morning's story in the Washington Post indicating that Italy has asked the United States for loans, a Treasury spokesman said:

"While we have seen the article in the Washington Post this morning, we have not been approached by the Italian government with respect to any such plan."

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

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FOR IMMEDIATE RELEASE June 21, 1974

EXCEPTIONAL SERVICE AWARD PRESENTED
TO ASSISTANT SECRETARY
JOHN M. HENNESSY

Secretary of the Treasury William E. Simon today presented an Exceptional Service Award to Assistant Secretary John M. Hennessy, who is resigning from the Department.

The gold medal award, one of the Department's highest, is presented to Treasury employees "who distinguish themselves by exceptional service within or beyond their required duties."

The citation to Mr. Hennessy read:

"As Assistant Secretary for International Affairs, and previously as Deputy Assistant Secretary for Development Finance, John M. Hennessy has made an exceptional contribution to the formulation and execution of Treasury policy on a wide variety of complex international financial issues, including bilateral aid, debt rescheduling, trade, monetary reform, and the provision of U. S. financial contributions to the resources of international development lending institutions.

"Mr. Hennessy participated with great effectiveness in numerous international negotiations and Congressional appearances in futherance of these objectives. On these occasions, and in his work within the Treasury, he consistently impressed those with whom he dealt with his energy, dedication and creativity. It may be truly said in his service to the Department and the Government, he gave of himself without stint; and he brought an intellectual honesty, a fresh insight and a goodwill that made 'insoluble' problems soluble."

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

FOR IMMEDIATE RELEASE 3/8 June 21, 1974

MRS. FRANCINE IRVING NEFF
SWORN IN AS 35TH TREASURER OF THE UNITED STATES

Mrs. Francine Irving Neff of Albuquerque, New Mexico, was sworn in today as the 35th Treasurer of the United States by Treasury Secretary William E. Simon.

As Treasurer of the United States, Mrs. Neff is responsible for the custody, issuance and redemption of United States currency. New issues of paper currency will bear her signature in the lower left corner opposite that of Secretary Simon. She succeeds Mrs. Romana Acosta Banuelos who resigned February 14.

Mrs. Neff is the seventh woman to occupy one of the oldest posts in the Federal Government, which dates back to 1789.

Born in Albuquerque, New Mexico, on December 6, 1925, the daughter of Edward Hackett and Georga Wanita Henderson Irving, Mrs. Neff was reared in Torrance County, New Mexico. She was graduated from Cottey College in Nevada, Missouri, and received a B.A. degree with distinction from the University of New Mexico. She was married in 1948 to Edward John Neff, surviving founding partner of Neff and Company, Certified Public Accountants. They have two children, Mrs. Albert Michael Tomforde, III, of Houston, Texas, and a son, Edward Vann Neff, a student at the University of Albuquerque.

Mrs. Neff became active in the Republican party as a poll worker in 1964. She was named to the Bernalillo County Republican Central Committee and Executive Committee and became State Adviser to the New Mexico Teen-Age Republicans. She then became a member of the New Mexico Republican State Central Committee, was elected National Committeewoman for New Mexico, and was appointed to the Executive Committee of the Republican National Committee.

Mrs. Neff is resigning her active posts in the Republican Party with her swearing-in, but will continue to work for and speak for a strong two-party system.

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"PRESS CONFERENCE U.S.A."
June 20, 1974

GUEST: William E. Simon, U. S. Secretary of the Treasury

PANEL: Edwin Dale, New York Times
Fred Emory, London Times
Harry Ellis, Christian Science Monitor

MODERATOR: Harold Geron

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MODERATOR: Our guest today is Secretary of the Treasury, William E. Simon. As a principal advisor to the President, the Secretary plays a major role in formulating, recommending, and coordintating international monetary and trade policies, as well as domestic and international economic and fiscal policies. In his role as Secretary, Mr. Simon heads a department which has 125,000 employees, who collect the nation's taxes, pay the nation's bills, keep track of the government's accounts, print its money, and manage the public debt.

He's chairman of the national advisory council, chairman of the east-west trade committee, performs many other official duties, perhaps too numerous to mention at this sitting. A former New York investment banker, Mr. Simon had been serving both as Deputy Secretary of the Treasury, and as administrator of the Federal Energy Office, when named by President Nixon to succeed George P. Shultz.

Guiding the nation through the energy crisis, he became one of the better known public figures, as he met regularly with members of the press, radio, and television, to keep the American public informed of the day to day decisions being made to cope with energy problems. He continues to serve as an advisor to the President on energy policy.

Mr. Secretary, welcome to Press Conference, U.S.A.

SECRETARY SIMON: Thank you, very much.

MODERATOR: The panel members are Edwin Dale of the New York Times, Fred Emory, the Times of London, and Harry Ellis, the Christian Science Monitor. Mr. Dale, if you please, I'll ask you to start the questions.

MR. DALE: Mr. Secretary, we're all familiar with the world wide problem of inflation, rapidly rising prices. You suggested that something that some people called the old time religion, holding down government spending, and a monetary policy to curb expansion of money and credit, is about the only reliable way to solve the problem.

Some Americans think the old religion has already been tried, and hasn't worked. What is your answer to that?

SECRETARY SIMON: I wish that were true, and if one looks at what's occurred in the last fifteen years, where in fourteen of those years the government's unified budget has been in deficit, that that certainly belies any belief that this has been tried and it fails.

Unfortunately, there is no instant cure to the problem of inflation. Don't we wish that by pumping extra gasoline and reducing the gasoline lines at gasoline stations that we could solve inflation in the same fashion. Unfortunately, the policies of the government, and in particular, over the last twenty-five years in general, and since 1964, the beginning of the Vietnam war, have built in an

inflation in this economy that's going to take a long time to cure, and it's not going to be cured in one, two, or five years. And prudent fiscal and monetary policy is at the foundation of the cure.

It's not the only thing that we can do.

MR. DALE: Well if we accept your premise that the truth of the matter is that the old time religion has not really been tried sufficiently, or hasn't been practiced sufficiently in the last ten years, do you think that now the government can and will have the determination to stick with it for the three, or four, or five years it takes to solve this inflation?

SECRETARY SIMON: Well I think that there would be many sceptics on that subject, and one might say that I would be perhaps sceptical on that also, because if requires a political will to solve this problem, a cooperation between the executive and the legislative branch of government for a sustained period of time, recognizing that this is going to be a continued priority, because we can not continue to recommend expenditures, nor can the Congress continue to appropriate and authorize these monies for all the various projects, unless we intend to pay for them out of current revenues.

MODERATOR: Mr. Emory.

MR. SIMON: To answer your question, if I may just

go a little bit further, I think that double-digit inflation has frightened the American people, and what is occurring in the world today. And I think if we've every had a chance of success in this area, I think now is the time, and that's why I think we should press forward on this fight for fiscal and financial sanity.

MODERATOR: We come to you, Mr. Emory.

MR. EMORY: Well Mr. Secretary, following up on that, it's clear that people in other countries, especially in Europe, and in other industrial countries, are already beset with double-digit inflation, and many of them are worrying that before the medicine works, before they get converted by this old time religion, that the patient might somehow die and not be resurrected, and there is much talk at the moment, as you well know, of not only the word recession, but depression. Serious, if perhaps progressive economists and historians are readily digging up the parallels with the twenties and the thirties and the crash and so on.

How realistic are these prophecies of doom, and what can be done, in fact, to make sure they don't fulfill themselves?

SECRETARY SIMON: I think your chances of having the depression, as some of these people call it, are far greater if we continue to experience the world-wide infla-

tion rates that we're experiencing today. And indeed, it's going to require some fiscal bite, some slowdown in the economies of the country, a reduction of the demand throughout the world, and in particular in the United States, to cool things off for a period.

But this by no means imples depression or recession. There are always those that are willing to say that it's going to be carried too far, and that it will be overdone, and that's a disaster. I'm sorry, I don't subscribe to that. The real danger lies -- and history will show all these people when they do their research, that indeed the restraint and prudent fiscal policies have never been allowed to continue long enough.

MR. EMORY: Well you well know, though, that in -- in establishing restraint, in maintaining it, one does risk the opposite, and one does risk a deepening recession with widening unemployment.

How much unemployment does -- do the industrial societies have to accept in order to get back to a sort of even keel, non-inflationary -- or should we say stable inflationary system, rather than an expanding one?

SECRETARY SIMON: One cannot just pick an unemployment number that would be satisfactory, or acceptable in world wide. Each economy differs so greatly; in the United States we have always deemed full employment to be at four

percent. There are many who are beginning to recognize that four percent is an outmoded number, due to the change in the component of the labor force, that perhaps it should be four and three-quarter, or even slightly higher, the definition of full employment being all those who wish to work, can work.

Now there are ways through the budget prócess, through our welfare and unemployment systems, that we can deal with unemployment during period of escalation, whatever it's for, particular reasons such as the energy crisis, or otherwise. And that's how it should be dealt with, recognizing that we must help the disadvantaged.

MODERATOR: Harry Ellis.

MR. ELLIS: Mr. Secretary, you have described inflation as a world wide problem, That being so, even if for example the United States government were to proceed prudent fiscal and monetary policies over a period of time, can any one national government control its inflation if the problem is raging throughout the world?

SECRETARY SIMON: Well there's some countries -- and the United States is a very dramatic illustration of this -- that can do a great deal. Really, in this area there are many who are beginning to believe that the United States is a significant contributor in exporting inflation to the rest of the world.

Let's take a look at our agricultural policies for years where we kept the prices slightly higher, and reduced the production, well all this is changed. We are supplying agricultural products to the rest of the world, recently including Russia and China, which is a much expanded market, which is going to present some problems in the agricultural area, down the road.

But we need to have significant production in this area, to make sure that there is ample food, not only for the citizens of the United States -- at reasonable prices -- but for the rest of the world.

The recent world wide inflationary experience has been in the area of food and petroleum. Now, of course, due to the petroleum problem, and its basic feed stock role in our economy, it's beginning to work its way through and in a more permanent form, and that's the danger we face here, to be followed by a potential problem in the wage area.

I believe sincerly that if the United States makes significant problem -- progress, rather, bringing our inflation under control, that this is going to have a very -- very good effect on the rest of the world.

MR. ELLIS: Let's look at it from a slightly different point of view. You have discounted the possibility of a world wide depression, if inflation is curbed. But

what about financial problems? In other words, this massive transfer of perhaps 70 of 80 billions of dollars from the industrialized nations to the oil-rich nations. Now so far, the Arabs are reinvesting their surplus funds in very short term securities, which gives the lending institutions in the Euro-dollar market, and I assume here in teh United States, a problem, since they must lend on longer term.

Is there a problem arising here of really serious proportions?

SECRETARY SIMON: There could be a problem, but let's start with a premise that the Arab nations need a good, liquid, viable market to invest their funds. It's clearly in their best interest. Now in recent days we have many reports of bankers not accepting monies on deposit any longer for short periods of time, recognizing that they can't invest it with certainly to have asset and liabilities match approximately.

Our capital markets world wide are large enough to handle these funds, with adjustments, with adjustments of special issues in our Treasury Department, which we have issued to many governments in this world. Germany has upwards of twenty billion of the 26 billion that we have outstanding. There are going to be means devised to handle satisfactory this flow of funds, but don't misunderstand me,

it's not an easy solution, and we are working terribly hard to avoid disruptions that could occur on a temporary basis.

MODERATOR: We'll continue the questions in a moment.

MR. : You are listening to Press Conference, U.S.A., broadcast each week at this time by the Voice of America. Our guest is William E. Simon, Secretary of the Treasury. Correspondents asking the questions are Edwin Dale, of the New York Times; Fred Emory, the Times of London; and Harry Ellis, the Christian Science Monitor.

Mr. Dale, I believe we pick up with you.

MR. DALE: Mr. Secretary, there's international consensus among the experts that a rather small group of less developed countries, though some of them with very large populations, are being hardest hit by the huge jump in oil prices, food prices, and fertilizer prices. I believe the new term is "most seriously affected countries" or MSA's.

Yet with that agreement there is still no specific international program to deal with the problem. Do you think the United States should, or will, take the lead in rounding up special help for these countries?

SECRETARY SIMON: Well, we're doing several things in this area. Number one, we're working to get our idle legislation through Congress, the soft loan window of the

World Bank, which is obviously helpful. The V __________ Proposal, which was adopted at the recent finance ministers meeting in Washington to create the special facility that will assist the lesser developed countries in the world, and those also, such as Italy, that are experiencing particular problems due to the explosive increase in oil.

Now recognizing that there are lesser developed nations, and that they cannot pay this near market interest rate with a short duration for repayment, it has been suggested -- and adopted -- that an interim committee would immediately be set up, by the finance ministers, which has occurred, which will address itself with urgency to the problem of the most seriously affected of the lesser developed countries.

So yes, we are concentrating on that, and we recognize this is a very, very difficult problem.

(End of first tape.)

MR. DALE: Would you anticipate that the United States, which as we all know has its troubles with getting Congress to approve additional funds for aid, would you anticipate that the United States would be the leader? Would put up a package? Would make the proposal? Or would somebody else have to do it?

SECRETARY SIMON: Well this would be done in this interim committee that's studying what can be done and how

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it can be done, as far as the lesser developed nations, and it's an all-encompassing subject involving the SDR link and the broad issue, and even some of the specifics of the issue of gold. What we could promise we would only be able to go up and consult with Congress on what might be reasonable as far as the United States and its responsibility to this area.

MODERATOR: Fred Emory, of the Times of London.

MR. EMORY: Mr. Secretary, turning to gold, since you raise the term, this week the respective committees, I believe, of both the House of Representatives, and of the Senate, have voted to -- voted bills that will enable U. S. citizens to by gold. I think the House version is by the end of this year, December 31st.

Doesn't that -- the first question is, doesn't that put tremendous pressure on the international -- on the -- on those who would negotiate a new role for gold in the international monetary system, to come to terms with that situation by the end of this year, without provoking an explosion in the gold price?

SECRETARY SIMON: Well I would hope that it would create a sense of urgency for the leading nations with gold stocks to come to some reasonable determination on the role of gold in the future, but I must admist I take some exception to your last comment on an explosion in the price of

gold, because you are stating rather explicitly that if American citizens are able to buy gold that immediately they will run out and buy X billion dollars worth of gold, thereby forcing the price up.

MR. EMORY: Yes, Mr. Secretary, I did link that to the fact that maybe there would not be an international agreement.

SECRETARY SIMON: One might design a scenario where if the United States government, recognizing that the American citizens would have this demand for this commodity, we would feel free to sell our stocks, or sell from our stocks of gold to meet all or part of this demand, depending on what the demand may turn out to be, and this would certainly perhaps have a neutral effect, also.

If we succeed in our efforts, world wide, to put the dragon of inflation back into its cave again, will there indeed continue to be a demand for gold and other commodities, as we have seen these last two years, in the flight from currency? Well, I don't think so.

MODERATOR: Mr. Ellis, of the Christian Science Monitor.

MR. ELLIS: Mr. Secretary, when you were Federal Energy Administrator you spoke a good deal about the need for a conservation ethic in this country, and your successor in that office, Dr. Sawhill, continues this view, that

Americans must reduce their energy consumption growth rate from perhaps five percent a year to two percent.

Now if this is true in the field of energy, is it also true, generally, that Americans should adopt a conservation ethic? For example, the government at this moment is urging American consumers to buy more beef and consume more beef, but in the long run, would it not be better if Americans consumed less beef so that there would be more grain for the truly hungry peoples?

SECRETARY SIMON: Well I think there again that we have demonstrated out agri-power -- if you will -- and our ability to supply grain at reasonable prices. It was due to the extraneous facts of the weather of 1972, which created the scarcity that occured, compounded by our agricultural policies here, which have been changed, and changed for the first time in many, many years.

Now obviously the United States of America is a very fortunate country, and its citizens are very fortunate with the abundence, the super-abundence of natural resources and food and really, our standard of living vis-a-vis the rest of the world. So one could say that we are, perhaps, spoiled, and maybe we should begin to take a second look at all of our consumption habits. Yes, I would subscribe to that.

MR. ELLIS: On a related topic, at the recent meet-

ing of OPEC nations in Quito, Ecuador, the Saudi Arabians prevented a further increase in the price of world oil. Do you foresee that the price of world oil will stabilize at the end of the next three months, at this level? Or when can we foresee and actual decline?

SECRETARY SIMON: Assuming production levels remain where they are today, we have seen already a world response to the new prices, today's existing prices, in rather significant reduction in demand, or a reduction -- certainly -- in the anticipated growth rate.

Just take the United States, our imports have been running approximately six and a half million barrels a day, where it had been forecast at this time of year we would be running seven and three-quarter million barrels a day. Well this is occurring world wide, and as a result we have a slight surplus.

Now storage capacity is not that great in the world today, and right now it's pretty full, so with this, coupled with the reduced demand, one can see pressure on prices, and I look for prices to be declining in the months ahead.

MODERATOR: Mr. Dale.

MR. DALE: The long-term goal of world monetary reform, as stated in the recent report of the Committee of Twenty, the nations that are negotiating the issue -- or

have been negotiating it -- is a return to fairly fixed currency exchange rates, called -- quote -- stable but adjustable, unquote. This would mean that a trader or a tourist would know, at least in the short run, a few months or a year, what his currency was worth, in terms of other currencies.

Do you think that day will ever really come, and do you think it should come?

SECRETARY SIMON: Well I've been of the school that really felt that the floating rates have worked rather well, since their inception. Looking back at what fixed rates might have been during the period of certainly the oil crisis one can envision far greater disaster than the fluctuations that occurred in a free market place.

Where we have fixed rates that give speculators the ability to shoot at a target and bring a given currency down, I must admit that my bias is always been let the speculator beware in a marketplace with the uncertainties of central bank intervention, as to when they might occur.

Yes, I can envision a world when we get our major problems world wide, and inflation, and the raw materials problems, and the shortages that loom on the horizon, and many areas, I can see the day when we could have stable but adjustable rates. Exactly how they will work, I think we'll have to wait and see the imagination of the designers.

MR. DALE: I assume from that that you would really not like to see us return to the old system in which the central banks had to intervene to the tune of two and three billion dollars in a single day to hold the pegged rates.

SECRETARY SIMON: Well I would not say, Mr. Dale, that there would not be times when I would advocate intervention of whatever amounts it took to achieve a particular goal. But I would not like to see it done under the strict rules of a targe where we must defend this rate, and indeed everyone knew what rate we were defending.

I consider that a sitting duck position, and not terribly wise.

MODERATOR: Fred Emory.

MR. EMORY: Mr. Secretary, some rather extreme language has been used about the economic situation in Italy, and to a lesser extent -- perhaps, but only relatively so -- about the economic situation in Britain. What do you feel, from the United States point of view, can be done in terms of international help for both these -- both these economies?

SECRETARY SIMON: Well --

MR. EMORY: And anybody else who gets into that kind of trouble.

SECRETARY SIMON: As I mentioned before, the V________ special facility is going to -- is going to be

a great help. But before one can design any particular Band-aids to take care of the situation that exists today, and if the oil prices remain at these levels, will exist a year from now, if these countries don't begin to change their fundamental fiscal and monetary policies, and bring the necessary discipline to bear, that Misters Columbo and Carley wish to bring to bear, because that is the solution, and that's what I've been advocating here in this country to stop attacking the results of the problem, and start working on the causes of the problem.

MR. EMORY: Does that apply to the British scene as well?

SECRETARY SIMON: I must admit I've been very heartened by recent developments in the British picture, and in particular I'm referring to the discoveries in the North Slope in the -- what one might call liquid gold, where recent proven reserves are over 900 million barrels, to be produced by -- before 1980.

Now this is an addition of three million barrels a day.

MR. EMORY: You said the North Slope, did you mean the North Sea?

SECRETARY SIMON: The North Sea, I beg your pardon, Mr. Emory, yes. I did. And that is quite significant, and drilling is continuing, and I'm looking forward to fur-

ther discoveries there. This is a -- this is a very impor-tant thing for the world economies.

MODERATOR: Harry Ellis.

MR. ELLIS: The U. S. consumer inflation rate, now is about twelve percent, and some experts say that food and fuel have contributed no more than four or five percent to that. Is this an accurate figure, and if so, where does the rest of the inflation come from?

SECRETARY SIMON: Actually, our figures, which I have never heard this comparison, Mr. Ellis, that food and fuel contributed four or five percent. It is clearly 60 percent of our problem here in the United States, in the past. Now obviously we're not going to see another ex-plosion, in our judgement, in the world price of crude oil, and with the production of agriculture products which this harvest is bringing to this country, we're going to see a significant easing in the price of -- of price pressures on food.

But this, as I said, is not going to allay the major problems that we face ahead, and the scarcity of other commodities, in the basic feed stock role that petroleum plays in our industries, where we're having permanent in-creases ratcheted in in every commodity that we use, and this compounded by the wage settlements of recent days, is going to keep inflation at a very unacceptable rate in this

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country for some time.

MR. ELLIS: Well that would imply that there should be some sort of world wide agreement on commodity allocation.

SECRETARY SIMON: Well I don't know. When we talk about commodity allocation there will be a world food conference in the fall, which will -- I am sure -- discuss this.

We're in the process, in the energy coordinating group, of discussing a world wide allocation of oil, when it's in short supply, whether it's temporary or more permanent nature, so we are addressing these particular problems. Yes.

But I'm not sure that allocation -- allocation doesn't produce anything, and it doesn't create anything. Really, what we need is more supply and more capacity, world wide. And in particular here in the United States in some of our basic industries such as steel and paper.

MODERATOR: Mr. Dale, we're in the final thirty seconds. So you have a quick final question here?

MR. DALE: All right, I'll make it quick. Returning to the financial problem of these massive flows of funds, arising from the higher oil prices, you mentioned that some banks were refusing to accept these short term deposits. Do you think that's wise? Would you want the banks to keep on being prudent here? Or to accomodate the situation?

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SECRETARY SIMON: I most certainly do want them to be prudent. I don't think any banker should accept deposits for a one, two, three, or five day period, when he cannot reinvest it at a -- at a profit. That is the banking function. And they should reach an accomodation with a prudent balance between their asset and liability mix, and that is prudent banking, and that's what indeed is occurring and will occur.

MODERATOR: Thank you very much, Mr. Secretary. And thank you, panel members. Our guest has been William E. Simon, Secretary of the Treasury. The panelists were Edwin Dale, the New York Times; Fred Emory, the Times of London; and Harry Ellis, the Christian Science Monitor. This is Norman Garand at the U. S. Treasury in Washington.

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FOR IMMEDIATE RELEASE June 21, 1974

STATEMENT BY SECRETARY OF THE TREASURY
WILLIAM E. SIMON
ON THE APPOINTMENT OF CHARLES A.
COOPER AS ASSISTANT SECRETARY

"I am highly pleased that the President has announced his intention to nominate Charles A. Cooper to be Assistant Secretary of the Treasury for International Affairs, succeeding John M. Hennessy. Mr. Cooper will be responsible for development finance, and international monetary credit and investment policy formulation, reporting to Under Secretary Jack F. Bennett.

"Mr. Cooper comes to the Treasury with a broad and practical background in international economic affairs. He is currently at the National Security Council, specializing in international economics affairs.

"He has also spent four years in South Vietnam. His last assignment was as Minister-Counselor for Economic Affairs at the U.S. Embassy in Saigon. In addition he has worked as an economist at the Rand Corporation, and served on the staff of the Council of Economic Advisors.

"I have had the pleasure of working with Mr. Cooper on energy matters over the course of the past year, and I am delighted that this association will continue at the Treasury."

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June 21, 1974

BIOGRAPHY

CHARLES A. COOPER

Charles A. Cooper, 40, of McLean Virginia was nominated to be Assistant Secretary of the Treasury on June 21, 1974.

He has been a Deputy Assistant to the President for International Economic Affairs, National Security Council (NSC) since May 1973. He came to the NSC from Saigon where he was the Minister-Counselor for Economic Affaris at the the U.S. Embassy from July 1970-May 1973. He had also served in Saigon from 1967-1968 as Associate Director and Economic Counselor for AID. From 1966-1967 he was at the White House as Economic Advisor to the Special Assistant to the President for Civilian Programs in Vietnam. From 1963 to 1966 and again from 1968 to 1970 he worked as an economist for the Rand Corporation, in Santa Monica, California. From 1961 to 1963 he was Assistant to the Chairman and Economist with the Council of Economic Advisors.

Mr. Cooper graduated from Swarthmore College, Pennsylvania, in 1955 with a BA in Economics, where he was elected to Phi Beta Kappa. He received his Ph.D in Economics from MIT in 1960. From 1957 to 1959 he was a Ford Foundation Fellow at the Russian Research Center at Harvard University. He speaks French and Russian. He was awarded the AID Superior Honor Award in 1968 and the State Department's Distinguished Honor Award in 1973.

Mr. Cooper was born in Chicago, Illinois on December 23, 1933, and grew up there. He is married to the former Janis Starr Stone of Sioux Falls, South Dakota. They have three children and reside in McLean.

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FOR IMMEDIATE RELEASE June 21, 1974

TREASURY ASSUMES REPORTING RESPONSIBILITY
FOR OFFICE OF ECONOMIC STABILIZATION

The Cost of Living Council (Department of the Treasury) today announced procedures for completing the work of the Economic Stabilization Program after the Council's termination on June 30. Effective July 1, 1974, an Office of Economic Stabilization will be established in the Department of the Treasury to provide for the orderly termination of the Economic Stabilization Program.

Andrew T.H. Munroe, presently CLC General Counsel, has been designated as Director of the new office.

Mr. Munroe characterized the office's functions as follows:

"The primary responsibilities will include review of final quarterly and year-end reports, adjudication of exceptions and reconsiderations, pursuit of compliance cases, coordination of litigation involving the Economic Stabilization Program, preparation of working papers related to the history of the program, and compilation of Economic Stabilization Program documents in conjunction with establishment of a CLC Records and Archives Center."

Deputy Director of the new office will be Henry H. Perritt, Jr., presently Executive Secretary of the Cost of Living Council.

To remove some confusion regarding final reporting requirements, Mr. Perritt reemphasized the post-April 30 prices and wage reporting requirements. With respect to prices, he noted the following:

- o The last fiscal year report required is the report for the most recent fiscal year ended on or before April 30, 1974, unless the reporting requirement was terminated because of an earlier decontrol action. The report for such a fiscal year is required to be filed no later than 90 days

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after the end of the fiscal year or no later than July 29, 1974, in the case of a fiscal year which ended on April 30, 1974. All year-end reports should be sent to the Department of the Treasury, Office of Economic Stabilization, 2000 M Street, NW., Washington, D.C. 20508.

- In the health industry the last fiscal year report required is the report for the most recent fiscal year ended on or before April 30, 1974. All year-end reports should be sent to the Department of the Treasury, Office of Economic Stabilization, 2000 M Street, NW., Washington, D.C. 20508.

With respect to wages, Mr. Perritt noted:

- Executive Compensation: Firms with annual sales or revenues in excess of 250 million dollars must submit reports of executive compensation paid with respect to the last fiscal year ending on or before April 30, 1974.

  These reports and requests for approval should be sent to the Department of the Treasury, Office of Economic Stabilization, P.O. Box 983, Washington, D.C. 20044.

- Food, Health, and Construction: Any retroactive pay adjustment for work performed on or before April 30, 1974, in excess of the applicable standards must be approved before implementation.

  Food reports and requests for approval should be sent to the Department of the Treasury, Office of Economic Stabilization, P.O. Box 6185, Washington D.C. 20044.

  Health reports and requests for approval should be sent to the Department of the Treasury, Office of Economic Stabilization, P.O. Box 472, Washington, D.C. 20044.

  Construction reports and requests for approval should be sent to the Department of the Treasury, Office of Economic Stabilization, P.O. Box 992, Washington, D.C. 20044.

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Requests for interpretations, exceptions and other matters pending before the Council on June 30 will continue to be processed by the Office of Economic Stabilization of the Department of the Treasury without the need for reapplication by the party requesting action.

Questions regarding the applicability of the Economic Stabilization Regulations should be directed to the Chief Counsel, Office of Economic Stabilization, 2000 M Street, NW., Washington, D.C. 20508

The OES unit will become one of the Departmental offices administered by the Assistant Secretary for Administration, Warren F. Brecht.

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FOR RELEASE 6:30 P.M. June 24, 1974

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.6 billion of 13-week Treasury bills and for $1.9 billion of 26-week Treasury bills, both series to be issued on June 27, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing September 26, 1974		26-week bills maturing December 26, 1974	
	Price	Equivalent Annual Rate	Price	Equivalent Annual Rate
High	98.064	7.659%	96.018 a/	7.876%
Low	97.993	7.940%	95.904	8.102%
Average	98.018	7.841% 1/	95.954	8.003% 1/

a/ Excepting 1 tender of $675,000

Tenders at the low price for the 13-week bills were allotted 17%.
Tenders at the low price for the 26-week bills were allotted 92%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 41,075,000	$ 31,075,000	$ 25,675,000	$ 15,675,000
New York	3,244,695,000	2,116,695,000	2,505,065,000	1,487,065,000
Philadelphia	27,010,000	26,950,000	9,830,000	9,830,000
Cleveland	49,780,000	44,770,000	26,010,000	21,010,000
Richmond	52,970,000	41,970,000	33,415,000	30,115,000
Atlanta	33,785,000	33,685,000	23,715,000	23,665,000
Chicago	209,380,000	135,750,000	186,420,000	166,920,000
St. Louis	46,165,000	28,165,000	40,365,000	26,205,000
Minneapolis	18,545,000	18,545,000	13,180,000	13,180,000
Kansas City	30,405,000	30,255,000	24,575,000	24,335,000
Dallas	30,615,000	22,615,000	22,540,000	13,540,000
San Francisco	140,440,000	69,610,000	105,735,000	68,735,000
TOTALS	$3,924,865,000	$2,600,085,000b/	$3,016,525,000	$1,900,275,000c/

b/Includes $424,730,000 noncompetitive tenders accepted at average price.
c/Includes $218,915,000 noncompetitive tenders accepted at average price.
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 8.11% for the 13-week bills, and 8.46% for the 26-week bills.

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FOR IMMEDIATE RELEASE June 25, 1974

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $4,500,000,000, or thereabouts, to be delivered July 5, 1974, as follows:

90-day bills (to maturity date) in the amount of $2,600,000,000, or thereabouts, representing an additional amount of bills dated April 4, 1974, and to mature October 3, 1974 (CUSIP No. 912793 US3), originally issued in the amount of $1,809,585,000 (an additional $100,065,000 was issued on June 5, 1974), the additional and original bills to be freely interchangeable.

181-day bills for $1,900,000,000, or thereabouts, to be delivered July 5, 1974, and to mature January 2, 1975 (CUSIP No. 912793 VP8).

The bills will be issued for cash and in exchange for Treasury bills maturing July 5, 1974, outstanding in the amount of $4,303,815,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,424,425,000. These accounts may exchange bills they hold for the bills now being offered at the average prices of accepted tenders.

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Monday, July 1, 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 and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions

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with respect to Government securities and borrowings thereon may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on July 5, 1974, in cash or other immediately available funds or in a like face amount of Treasury bills maturing July 5, 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

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FOR RELEASE AT 10 A.M. EDT
WEDNESDAY, JUNE 26, 1974

STATEMENT OF THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE SUBCOMMITTEE ON ECONOMIC GROWTH
OF THE JOINT ECONOMIC COMMITTEE
JUNE 26, 1974

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss long-term economic growth in the United States. Issues and policies that focus on the long term are rarely given sufficient attention in the Government -- preoccupied as we so often are with the 2- or 4- or 6-year election cycle -- so I am especially glad to have this opportunity to share with you some of my views on the development of our economy over the next decade or so.

I do not believe it would be useful to present to you a detailed set of numbers on our expectations for the distant future. We do not believe that projections of long-term growth can be made with pin-point precision. And to attempt to do so in detail by industry would only be an exercise in futility because growth occurs through innovations that give us the new products and new methods that make for better use of economic resources. The

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is clearly illustrated in the table below.

International Comparisons of Investment and Productivity, 1960 through 1973

	Average Private Investment as Percent of GNP (Excl. Defense Expenditures)	Average Annual Growth in Productivity (Output Per Man-Hour)
United States	18.0%	3.3%
Canada	22.4	4.3
Japan	33.4	10.7
France	24.9	5.9
Germany	26.2	5.8
Italy	21.4	6.2
U. K.	18.9	4.2
OECD less U. S.*	24.2	6.3
All OECD*	20.5	4.8

* Figures in the first column for the OECD country groups represent private investment as a percent of GNP including defense expenditures and cover the 1960-1971 period only. Broader and more current data are not available for some OECD countries other than those listed above.

Similarly, productivity data for some OECD countries other than those listed above are available only through 1972.

Sources: OECD and national sources; Bureau of Labor Statistics

Not all investment is in machines and mortar. We also invest in a more productive work force through the accumulation of more "human capital" -- more education and better health. Indeed, the economic value of this "intangible" capital formation may approach the value of our stock of capital more conventionally defined.

At present, both these forms of investment are on the rise. Plant and equipment spending has been increasing since 1971, though not with as much vigor in real terms as the economy needs. Similarly, each year's new entrants into the labor force have more education and are generally better equipped than their predecessors for the technological challenges of the future. On the assumption that these trends can be extended and strengthened, I believe it is reasonable to anticipate that productivity will continue to grow at a rate comparable to the historical pattern -- which may not be enough, however, given the pervasive demands of our society for additional economic output.

The Massive Challenge of the Future

In recent years, however, there have been several developments in our economy that call for an increase in

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capital formation at a considerably higher rate than previously. What I have in mind are the enormous capital requirements to improve our housing stock, to provide new systems of urban transportation, to rebuild some of our basic industries, to clean up the environment and especially to achieve the goals of Project Independence. These programs will require an immense volume of new investment capital, far above and beyond the normal requirements to replace aging schools, industrial plants, and all of the other conventional needs.

The President has directed the Council of Economic Advisers to undertake a study of future requirements for capital. Without trying to anticipate the outcome of that study, I would like to discuss briefly my own view, which is that the economy will need to allocate a larger proportion of its output to capital formation than the historical average.

If this capital formation is to occur, it must be financed. And on the saving side of this issue, there are two crucial problems. One is inflation, to which I shall return in a moment. The other is profits, which perform a crucial function in this economic system of ours

and which are a major source of invested capital. Thus profits provide both the incentive and the wherewithal for new investment.

Unfortunately, however, profits are frequently not seen for what they are, either in size or in function. Many Americans look upon profits as an unnecessary evil, and most Americans see profits as being of much greater size than they are. Surveys show that the typical American thinks profits account for about 28 percent of the sales dollar. If that were so, our capital needs could be taken care of quite easily. The fact is, however, that profits take less than 5 cents out of each dollar of sales. In some key industries, like food retailing, profit margins are as low as 1 percent of sales. Thus profits alone do not begin to cover all of the capital requirements of industry, although they are the source of a substantial part of it. And profits will have to grow substantially to make their contribution to the investment needs of future years.

The important link between profits and capital formation is clearly illustrated by the critical problems of electric utilities. Because the rate-making authorities

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have been slow to react to skyrocketing fuel, capital and construction costs, the after-tax earnings and cash flow of the industry have been squeezed at a time when its capital requirements are growing rapidly. From 1964 to 1973, the industry's cash flow increased from $3.3 billion to $5.9 billion, while capital outlays climbed from $5.5 billion to $18.7 billion. As these figures strongly suggest, the low rates of profitability allowed by the rate-making authorities are threatening to destroy the industry's ability to raise the enormous volume of capital it needs to do its job. The electric utilities require higher earnings to assure that adequate electric power is available for all of us in the future.

In 1973, after-tax profits of all corporations increased some $15 billion, or 27 percent. On the surface, that would appear to be a sparkling performance. However, a significant part of that increase in profits represented gains in inventory valuation attributable only to inflation. That important element of profits did not represent an increased flow of cash available for new investment. In fact, undistributed corporate profits -- after taking account of the inventory valuation factor -- increased

only $3 billion last year. Furthermore, at $25.4 billion for 1973, they were still below the 1966 level of $27.4 billion. Moreover, if the inflation of the intervening period is taken into account, the 1973 total is only two-thirds of the 1966 level.

My concern about profits, then, has two aspects. One is the critical importance, in terms of the ability of this country to meet its future investment needs, that profits grow at a much more healthy pace over the coming years than they have in the past seven years. My other worry here is that the negative attitudes about profits held by many Americans might become a part of public policy. We must avoid legislation and regulation that is punitive of profits honestly earned. The result could only be that capital formation would be inhibited, and the real purchasing power of wage earners would rise more slowly.

The second part of my concern about the ability of the economy to meet the savings and investment demands of the future is the enormity of the capital requirements we face. Estimates of the needs of the energy industry alone for new capital over the next decade range from

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three-quarters to one trillion dollars. Pollution control might require another $100 billion. The cost of rebuilding basic industries such as steel, paper, cement, fertilizer, zinc and others, where investment has languished over the past decade, could add up to another $50 billion or more. Urban transportation, housing, and other major programs could take scores of billions of additional capital. And all of these needs come on top of conventional requirements. There can be no doubt that in total our future capital needs represent an enormous challenge.

Meeting the Challenge

To meet this challenge, we have two major alternatives. The first is that our increased investment requirements for energy and other new programs could take place at the expense of conventional capital formation. We could, in other words, divert some of our present investment to these new requirements. This would have serious consequences. Some of our cherished present goals, such as rebuilding the housing stock, would then suffer. And generally this would also result in a slower rate of overall economic growth, at least as conventionally measured.

The second alternative is to increase the share of total economic output going into investment. That is, we could displace some of our present consumption or Government expenditure in favor of the added investment. Although it is always uncomfortable to suggest that growth in consumer spending and worthwhile government programs must be held in check, we feel very strongly that this is the preferred alternative.

Our major task, then, is how we can achieve this shift from consumer and Government expenditures into investment. How can we assure that our predominantly private-decision economy will have the necessary incentives to increase the volume of saving and investment?

By far the most important thing that Government can do to encourage saving and investment is to bring inflation under control. This is one of the major reasons why I have stated so many times that inflation is our number one economic problem.

Inflation is the bitter enemy of the saving-investment process. What reason is there for any worker to put aside part of his paycheck every week if his return on that saving is no higher -- or even less -- than the rate of

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inflation? And inflation distorts investment incentives with funds going into speculative ventures rather than basic capital formation.

If, however, we can demonstrate convincingly to the private sector that the Government means business about inflation, that we are pursuing the policies that will permit a gradual subsidence of the pace at which prices and wages are rising, then the incentives will be restored for orderly and vigorous saving and investment. Under those circumstances, we will be able to effect the substantial shift from consumption and Government spending to investment that will be needed to provide for the massive capital requirements of the coming decade.

There is another important Government policy that we should consider, one that would make more savings available for private investment, and at the same time reduce inflation, and that is to alter our budget policy. Our general goal is to achieve a balanced budget when the economy is prosperous. If, however, we shift that goal to a significant surplus -- and assuming also that we don't offset that move by expanding the volume of loan guarantees or other off-budget gimmicks -- it would do two important things. It would enlarge the flow of savings available to

the private sector, because the Government would reduce its claims on the capital markets. It would no longer pre-empt a large share of the funds needed by home-builders and other users of financial capital who are now elbowed out of the market by the Government's superior credit rating. At the same time, a budget surplus would provide the necessary fiscal restraint that is so critical to control of inflation.

Another idea that deserves study is the proposal to provide new investment incentives for industry through the tax system. As you know, this approach always raises difficult questions, especially if the proposal is limited to specific industries. I do not have any recommendations for you at this time, but I did want to inform you that we are currently taking a careful look at the idea.

Summing Up

I am convinced that the American economic system is capable of making this major shift in output from consumption and government to investment. I think it can be done and that it is important that we do so. We should reverse our long-held policies that penalize saving and

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encourage consumption. Our tax system should be re-examined to this end. Federal Reserve Regulation Q, which limits interest paid on savings accounts, should be revised at the earliest opportunity. Control of inflation is of crucial importance. Another basic requirement is that we permit the normal incentives of the price system to operate freely. We must not impose artificial government constraints, as for example we have done for so many years, and are still doing, in regulating the price of natural gas.

It is instructive to recall what took place after August 1971, when we removed the artificial constraint of fixed exchange rates that had produced an overvalued dollar for so many years. In the free market, the dollar moved to new, more competitive levels and our trade balance, which had been in a nose dive for many years, returned to surplus. Similarly, when we changed agricultural policy 180 degrees to permit maximum production, American farmers responded to the incentives of the market place by planting large amounts of additional acreage, which are now producing record harvests, the prospect of which has brought grain prices down. These are just two examples of what the market place, given reasonable freedom and

time, can achieve in overcoming serious economic problems. Let us make sure that we remember this lesson in meeting the challenges of the future.

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Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR RELEASE AT 12:00 NOON EDT
WEDNESDAY, JUNE 26, 1974

ADDRESS
BY
THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
TO THE REPUBLICAN CANDIDATES CONFERENCE
AT THE MARRIOTT TWIN BRIDGES MOTEL
WEDNESDAY, JUNE 26, 1974

I very much welcome the invitation to be your luncheon speaker today. I spent much of the morning testifying before a Subcommittee of the Joint Economic Committee, which has been examining long-term economic growth prospects for the United States. My task is somewhat different here, because to you the "long-term" consists mainly of the time period between now and the November elections.

I have never run for elective office, but I do talk with a large number of people, here in Washington and around the country, to find out what are the main issues, problems, and concerns on their minds. Also, in my role as the American "finance minister", I have some opportunity to hear and see what is troubling people around the world.

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The message that keeps coming back, loud and clear, is that people everywhere are in an outrage about inflation. Inflation is the number one economic problem on everybody's list, not only here in the United States but throughout the industrialized world. The inflation problem has reached the crisis stage, and people are insisting that their governments take firm measures to stop it.

Thus I believe that inflation is going to be the overriding domestic issue of the coming election. Accordingly, I want to discuss what I think are the six most important points about inflation and how we must deal with it. Together, these six points make up a tough, comprehensive anti-inflation position that Republican candidates can take to the American people in the coming election. It is a position to which I think the American people will be highly receptive.

First, inflation is a creeping, debilitating disease. Ultimately, it could be fatal. It has spread throughout our economy over the past decade in particular, seriously damaging the standard of living of a significant segment of the population, undermining our financial markets and

generally playing havoc with the housing industry. It has even affected our personal economic freedom. It is not an overstatement to say that inflation constitutes a serious threat to the American concept of a predominately private-decision, market-oriented democracy. We must either move to stop inflation now or face up to the severe long-run costs that inflation will extract from our society.

Point number two. There are a lot of witch doctors around ready to promise instant cures to this fatal disease. A couple of years ago, the easy answer to inflation was direct wage and price controls. Today that suggestion is heard much less frequently. Now some people tell us that the rate of inflation is going to decline over the balance of the year, so there's no need to worry about it. In effect they are saying just ignore it. Well, I agree that the upward thrust of prices is abating somewhat as several special factors -- the runup in food and fuel prices, especially -- get behind us. But even under optimistic assumptions, the inflation rate will still be somewhere around 7½ percent at year end. And that's a horrendous situation. Seven and one-half percent inflation is surely worth worrying

about. For example, I worry that if we don't put our fiscal and monetary house in order, we will see that 7½ percent inflation rate accelerate again to still higher levels in 1975.

Another group of false prophets are promoting a tax cut as an instant solution to the consumers' loss of real income. Prices have gone up faster than wages, so the purchasing power of the average worker's paycheck has declined; the answer, we are told, is to cut taxes, which will restore that lost purchasing power.

Unfortunately, that's one of those answers that fits the old saying, "For every problem there is a simple solution: neat, quick -- and wrong." Cutting taxes will not restore the loss of real income. When you get down to fundamentals, that loss took place because there is less food and less petroleum available for consumption by the American people. A reduction in taxes will not change that. Putting more money into the hands of consumers will not put more food on their table or more gasoline in their tank.

So a tax cut may appear to be good politics -- tax cuts are always in great demand -- but it is crummy

economics. Because what will happen if we cut taxes under present conditions -- where most of the economy is operating at full capacity and shortages are still the dominant problem of production -- is that we would have too much money chasing a limited supply of goods. And that is a sure formula for more inflation.

Point number three is that, although inflation is a terribly complex and difficult problem, as much social and political as it is economic, we know how to cure it. We must manage our budget and monetary policy to keep the economy within the limits of its own capacity. The economy must be prosperous and it must continue to grow, but we must not let it run away with itself.

This is not an easy task. The Government, which really means the American people, must be willing to live with more discipline than it has in the past. We must face up to the fact that the economy doesn't have the capacity to accomplish all the things we would like it to do. Thus we will have to give up on some of the expansion of Federal spending programs we would otherwise like to have. And unless we are willing to cut spending, we will have to forego the pleasures of a tax cut.

Similarly, credit cannot always be easily available at low rates. The Federal Reserve System will have to hold the growth of money and credit to reasonable rates. If it does not, economic demands would again be pushed beyond our capacity to produce, which in turn would mean a new acceleration of inflation. Monetary discipline is thus a vital partner to budget discipline in keeping economic activity in balance with capacity.

However, to unwind the inflation that we have already built into the system, we will have to go a bit farther than that. For a time, the economy will have to operate at a bit less than full capacity. Demand will have to be below total potential output -- very close to it, but below. Sales can show a healthy growth, but that growth will have to be constrained so that if businessmen try to raise prices too fast, competitive pressures will prevent them from doing so. Employment can grow, too, but our labor markets must not be too tight so that the joint worker-management process of wage determination can result in a gradual deceleration of the upward trend of pay scales.

Point number four. The fight against inflation will

take time, years of it. There are no shortcuts, no acceptable quick solution. Frequent and abrupt changes in policy are the worst policy of all. To cure the price disease, we must be prepared to stay the long course and take an even strain on economic policy year after year. This is the only way to get the job done.

Point number five. Inflation is a cruel, indiscriminate, insidious tax. It affects everybody -- people on every rung of the income ladder, corporations, financial institutions, state and local governments -- everybody. But it hurts the poor worst of all. And if we don't have the self-discipline to keep Federal spending in line with tax revenues, what happens is that the deficit is closed by the harsh and uneven tax of inflation, rather than by more conventional taxes.

My sixth and final point is that the American people are ready for a tough anti-inflation program to a greater degree than ever before. They are fed up with inflation. They want action, meaningful action. They will no longer put up with gimmicks, such as direct controls, which attack the results rather than causes of inflation. They know there is no such thing as a free lunch, that

the Government cannot give them something for nothing. Thus, they will support restraint on Federal spending, and on monetary policy, too, in order to break the back of inflation. Americans want a return to the old-time religion of fiscal and financial responsibility. And we had better do it. Now.

In sum, then, my six points are:

1. Inflation is a disease that does terrible damage to our society.
2. There are always quack doctors around promising instant and painless cures, but we must firmly reject their dangerous prescriptions.
3. The only sure cure is that old-time religion of fiscal and monetary discipline.
4. We must use evenhanded policies and be willing to stay the long course, because the cure is going to take a lot of time and patience.
5. If we do not apply the necessary self-discipline, we will pay for it through the cruel and indiscriminate tax of inflation, with the poor paying most of all, and
6. The American people are now insisting upon

firm action by their Government against the inflation disease.

For the first time in a long time, therefore, a large part of the population is ready to support a meaningful anti-inflation program. For these voters, good economics is now good politics. For the others, it is up to us to sell our point of view. It is our job to explain the importance of beating inflation and the need for disciplined fiscal and monetary policy applied steadfastly for enough time to do the job.

Thus, I urge you to take this six-point program to the American electorate in the months ahead. I am sure you can make it a winning program!

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

FOR IMMEDIATE RELEASE JUNE 26, 1974

UNITED STATES AND BOTSWANA TO DISCUSS
INCOME TAX TREATY

The Treasury Department announced today that representatives of the United States and Botswana will meet in Gaborone in late July to begin discussions of a proposed bilateral income tax treaty.

At present there is no income tax treaty between the two countries.

The proposed treaty is intended to prevent double taxation and to facilitate trade and investment between the two countries. It will be concerned with the tax treatment of income of individuals and companies from business, investment, and personal services, and with procedures for administering the provisions of the treaty.

The "model" income tax treaty developed by the Organization for Economic Cooperation and Development will be taken into account along with recent U.S. treaties with other countries, such as the treaty with Norway, which entered into force in 1972 and the treaties with Trinidad and Tobago and Japan, which entered into force in 1971 and 1972, respectively.

Comment concerning the proposed treaty should be sent in writing by July 19, 1974, to Frederic W. Hickman, Assistant Secretary of the Treasury, U.S. Treasury Department, Washington, D.C. 20220.

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WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR IMMEDIATE RELEASE JUNE 26, 1974

UNITED STATES AND MALTA TO DISCUSS
INCOME TAX TREATY

The Treasury Department announced today that representatives of the United States and Malta will meet in Valletta in late July to begin discussions of a proposed bilateral income tax treaty.

At present there is no income tax treaty between the two countries.

The proposed treaty is intended to prevent double taxation and to facilitate trade and investment between the two countries. It will be concerned with the tax treatment of income of individuals and companies from business, investment, and personal services, and with procedures for administering the provisions of the treaty.

The "model" income tax treaty developed by the Organization for Economic Cooperation and Development will be taken into account along with recent U.S. treaties with other countries, such as the treaty with Norway, which entered into force in 1972 and the treaties with Trinidad and Tobago and Japan, which entered into force in 1971 and 1972, respectively.

Comment concerning the proposed treaty should be sent in writing by July 19, 1974, to Frederic W. Hickman, Assistant Secretary of the Treasury, U.S. Treasury Department, Washington, D.C. 20220.

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

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FOR IMMEDIATE RELEASE JUNE 26, 1974

PROPOSED FOREIGN CURRENCY REPORT FORMS

Treasury today announced notices of proposed rule-making and proposed reporting forms requiring reports of the foreign currency positions of banks and other firms, have been filed for publication in the Federal Register, Thursday, June 27.

The new reports are required by Title II of Public Law 93-110, which amended the Par Value Modification Act. Title II requires the Secretary of the Treasury to institute new statistical reports pertaining to the foreign currency transactions of banks and other business firms in the United States and of foreign branches and majority-owned foreign subsidiaries of U.S. firms.

The new reports will provide information on the activities of large banks and other firms which affect the position of the dollar in the foreign exchange market.

The reports will provide data on the spot and forward positions and assets and liabilities of banks and other firms in the United States and of foreign branches and majority--owned foreign subsidiaries of U.S. banks and other firms. Initially it is contemplated that reports will be required in eight major currencies: Belgian francs, Canadian dollars, Dutch guilders, French francs, German marks, Japanese yen, Swiss francs and United Kingdom pounds.

A reporting exemption is provided, so that reports will be required only from major banks which are active in the foreign exchange markets and from major nonbanking firms.

The proposed regulations and report forms are being published in the Federal Register as notices of proposed rule--making and proposed reporting forms with provision for a 30-day period for written comment by interested parties. Comments should be submitted in triplicate to the General Counsel, Department of the Treasury, Washington, D. C. 20220, and should be received within 30 days. Comments submitted in response to the proposed rule-making and proposed reporting forms will be available to the public on request unless confidential status for the submission is requested and approved.

(OVER)

The proposed forms and regulations will be reviewed and revised as appropriate in light of the comments received. The forms will also be submitted to the Office of Management and Budget for clearance pursuant to the Federal Reports Act.

WS-41

Thelma- is this in WES's File??
Novel

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SPOTMASTER

Secretary of the Treasury, William E. Simon, today issued a statement about his views on tax cuts:

Start → "Reporters have asked me a dozen times in recent days about my views on taxes. They want to know how I feel about tax cuts for individuals and tax cuts for industry.

Maybe what they really ought to be asking me is how I feel about inflation--because the problems are tied together.

But in any case let me try to make my views clear.

First, to give a general tax cut to every American would merely feed the fires of inflation. I oppose it. Reducing taxes would put more spendable income into the hands of consumers, but it really wouldn't help them because industry is operating at full capacity and cannot at this time produce more of what they want to buy. Thus, a tax cut would mean too much money chasing too few goods, which would only mean that prices would go up still faster. None of us wants that.

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Second, we have major problems of capital formation -- of providing the enormous investment in new plant and equipment which will be required to increase output and help keep inflation under control in the long run.

The President announced recently a new committee to study this problem, under Mr. Stein, the Chairman of the Council of Economic Advisers. As part of this effort, Treasury is also engaged in a series of studies to see whether our tax system and policies contribute to these problems, and if so, whether our tax laws might appropriately be modified. But the studies won't be completed overnight. We will be working with Congress, and Congress won't be able to act on suggestions within minutes either -- despite the implications in some recent news stories.

As part of these studies we are looking at ways to reduce the burden of the very poor. It seems to me the best way to help the poor -- and everybody else -- is to bring inflation under control. Fighting inflation is our #1 priority."

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

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FOR RELEASE 6:30 P.M. June 26, 1974

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for $1.8 billion of 52-week Treasury bills to be delivered July 2, 1974, and to mature July 1, 1975 were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS: (Excepting 2 tenders totaling $660,000)

High	- 91.781	Equivalent annual rate	8.129%
Low	- 91.587	Equivalent annual rate	8.321%
Average	- 91.652	Equivalent annual rate	8.256% 1/

Tenders at the low price were allotted 100%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted
Boston	$ 11,275,000	$ 6,275,000
New York	2,165,920,000	1,469,920,000
Philadelphia	18,295,000	8,295,000
Cleveland	13,845,000	8,845,000
Richmond	25,515,000	11,495,000
Atlanta	18,840,000	17,840,000
Chicago	204,680,000	153,680,000
St. Louis	28,720,000	16,720,000
Minneapolis	8,195,000	8,195,000
Kansas City	23,760,000	21,760,000
Dallas	3,675,000	3,675,000
San Francisco	129,300,000	73,300,000
TOTALS	$2,652,020,000	$1,800,000,000 2/

1/ This is on a bank discount basis. The equivalent coupon issue yield is 8.93%.

2/ Includes $91,530,000 noncompetitive tenders accepted at the average price.

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

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FOR RELEASE AT 10:30 A.M., EDT

STATEMENT OF THE HONORABLE JACK F. BENNETT
UNDER SECRETARY OF THE TREASURY
BEFORE THE SENATE FOREIGN RELATIONS COMMITTEE
ON PROPOSED U.S. CONTRIBUTION TO THE AFRICAN DEVELOPMENT FUND
JUNE 27, 1974, 10:30 A.M. EDT

Mr. Chairman: I appreciate the opportunity to be here today to testify in support of S. 2354, which would authorize a U.S. participation of $15 million in the African Development Fund - the AFDF, a soft loan facility associated with the African Development Bank. The authorization legislation was introduced in the Senate by Senator Humphrey last summer, and the Administration has included a $15 million request in the FY 1975 budget.

The Fund was established in June 1973 after several years of discussion and negotiation with pledges of about $80 million from other industrialized nations. The purpose of the AFDF is to complement the activities of the African Development Bank (AFDB), by providing concessional financing for high priority development projects, both in individual member countries of the Bank and for regional projects.

Africa is the least developed continent. Its peoples are the poorest in the world. About 75 percent of the

African people are engaged in subsistence agriculture with a per capita yearly income of less than $100 in half the countries. By comparison, U.S. GNP per capita stands at $5,160. When people live at the margin of existence this way, they are especially hard hit by economic crises and natural disasters.

For example, the sustained drought in the Sahel countries on the southern edge of the Sahara has caused staggering losses of livestock and crops, leaving the populations destitute and facing the possibility of widespread starvation. Since the countries of Africa are presently extremely poor, they have little ability to absorb such shocks. Although the Fund is not large in terms of Africa's needs, it can make a unique contribution to solving problems in the areas of integration and smaller projects, which the larger lending institutions can not efficiently handle.

As this is the first time this Committee is formally considering U.S. participation in this Fund, I would like to summarize briefly for you the history of the African Development Bank and the African Development Fund.

The African Development Bank was established in 1964 as a result of African initiative to assist in the economic and social development of the newly independent African nations and to promote economic cooperation among them. As with the other regional development lending institutions, the Inter-American Development Bank and the Asian Development Bank, where regional efforts are effectively directed at regional problems the AFDB serves as a focus for Africans to find solutions to their own development problems. Its membership now stands at 39 African countries. Unlike the other international financial institutions, the AFDB has no industrialized countries among its membership. It, therefore, represents a significant self-help effort by African nations to build a strong viable African institution.

As of December 31, 1973, the Bank's paid-in capital amounted to $127 million -- all from African countries and all in convertible currencies. Additional capital subscriptions are scheduled to be paid in over the next three years. The Bank also had about $5 million of borrowed resources.

Initially relying on a base of capital-poor countries and few trained personnel, the AFDB has successfully built a viable lending operation, and a very capable professional staff. As of the first of this year, the Bank had authorized $127 million in loans for fifty-three individual projects in twenty-nine countries and four regional projects. The

Bank's lending activities have emphasized roads and public utilities - the basic infrastructure which is severely lacking in Africa. All the Bank's loans have been at near market terms, i.e., 6-8½ percent and maturities of ten to twenty years. Clearly African in ownership and outlook, the Bank is playing a growing role as an articulator of economic issues in Africa.

In 1966, the Bank undertook discussions with the United States and other developed countries about the possible establishment of a concessional loan facility which would be associated with the Bank. The resources for this Fund were to come from non-African donor nations. In March 1971, donor nations, including the United States, agreed to a set of principles which would govern the establishment of the Fund. After approval by the Board of Governors of the Bank, the African Development Fund was established on June 30, 1973.

The Fund is legally separate from the Bank and managed by its own Board of Directors, consisting of six representatives of the donor countries and six Bank Directors. Each group holds 50 percent of the total voting power. A 75 percent weighted vote is required for all operational decisions. If the U.S. participates before December 31, 1974, we will be entitled to a seat on the Board of Directors.

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As in the case of the concessional funds of the other international development lending institutions, the Fund uses the Bank's staff and draws upon its experience and expertise.

The United States participated actively in the drafting of the Articles of the Fund, in order to be assured that the Fund would be established as an effective and soundly managed institution. We believe we have succeeded in this objective. The end product meets well-known Congressional concerns resulting from our experience with the other IFI's. For example, the Articles of Agreement of the Fund contain a requirement for review of completed projects by an audit committee reporting to the Board of Directors.

I would like to make clear that, while U.S. representatives took part in preparatory work for the Fund, no commitment to join the Fund has been undertaken on behalf of the United States. The U.S. representatives clearly indicated throughout these preparatory discussions that U.S. participation in the Fund was subject to Congressional review and approval. The discretion of the Congress to decide on U.S. participation has been fully preserved.

Since the Fund's creation in 1973, fifteen donor nations have pledged contributions of about $100 million, approximately $80 million of which has been subscribed. Our proposed

contribution of $15 million would bring the level of total contributions to about $115 million. We would be the third highest contributor, after Canada and Japan, who have pledged $16.5 million each.

I believe the U.S. stands to benefit from a modest role in the Fund. Our relations with Africa have assumed greater significance as U.S. investors and traders have been drawn increasingly to Africa. Our national interest dictates that we build cooperative economic relations with the nations of the continent. Participation in and support of the Fund is one means of furthering this goal. Participation in the Fund would be perceived by the African nations as an indication of our interest in their growth and prosperity; conversely, the absence of the United States from the Fund would be a highly conspicuous one that could only be costly in terms of the political relations we are trying to build with the African continent.

The developed world's need for industrial minerals and fuels and the growing consciousness of the limits on world resources has highlighted the economic potential of Africa. To illustrate, the continent possesses 42 percent of the world's cobalt resources, 34 percent of the bauxite, 17 percent of the copper, and about 23 percent of the world's known reserves of uranium ore. Africa will, thus, necessarily be an increasingly important source of vital U.S. imports.

Financing on the lenient terms proposed for the AFDF will be particularly appreciated and welcomed by African countries because it will permit a greater proportion of the benefits of these loans to be retained by the borrowing country for the financing of further development projects.

The Fund can also serve to encourage development assistance by the oil-rich countries of the region. We already have indications of the willingness of oil-exporting nations of Africa to increase their contributions for the economic development of the continent. Libya, Nigeria, and Algeria have already agreed to increase their participation in the African Development Bank's Ordinary Capital. The Arab oil producers are also involved in active discussions on the provision of short term assistance to African nations for oil purchases as well as long term concessional development assistance. A figure of $200 million has been mentioned in this connection, but the relationships of these proposed funds to the AFDB has not yet been defined.

Although in operation for less than one year, by May 31, 1973, the Fund's Board of Directors had approved nine projects and studies involving total commitment of about $23 million. Of these projects, five were for irrigation and water development in the severely drought-affected countries of the Sahel. I wish to emphasize that resources of the AFDF have not been and will not be used to finance oil imports. These resources can only be used for specific development projects.

We estimate the impact on the U.S. budget of the proposed $15 million contribution to the Fund will be quite small and spread over a number of years. We would seek appropriations that would permit us to complete our contribution within the same period applicable to other donors, i.e., by FY 1976. Initially, we would contribute in the form of non-interest bearing letters of credit, which would become budget outlays only when cashed as needed. Outlays in FYs 1975 and 1976 would total about $1 million each, with an increase to $2 million in the following two fiscal years, and $3 million in the following year. The cost to the United States of participation in the Fund is therefore small and entirely reasonable.

Under the Articles of the Fund, procurement of goods and services for projects financed by the Fund may only be from member nations. Thus, until the United States joins the Fund we will be precluded from this potentially substantial source of export earnings, particularly if the Fund should be expanded by the contributions of the other countries.

Action by the Congress before the end of this year on the proposed U.S. contribution of $15 million would enable the U.S. to participate in the Fund as an original member. It is our firm conviction that such participation is in

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the interest of the United States. The President has, on several occasions, expressed his strong support for United States membership. The cost of this participation is small, and our percentage share uniquely low. Yet potential benefits to the United States are significant - increased economic presence in an area of growing importance to the United States, demonstration of our concern for the development and prosperity of the region, and the opportunity to benefit from the export market generated by the Fund's activities. For these reasons, I urge this Committee to act favorably on this authorization request for the African Development Fund.

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

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FOR IMMEDIATE RELEASE June 27, 1974

Attached is a notice to be published in the Federal Register June 28, 1974, regarding Treasury's re-evaluation of a dumping finding regarding Northern Bleached Hardwood Kraft Pulp from Canada.

Also attached is a letter that has been sent to congressional and public inquirers regarding this action.

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Office of the Secretary

NORTHERN BLEACHED HARDWOOD KRAFT PULP FROM CANADA

Notice of Affirmation of Determination of Sales at Less than Fair Value and Referral to Tariff Commission of Petition to Revoke Dumping Finding

A "Finding of Dumping" with respect to prime grade and off-grade northern bleached hardwood kraft pulp from Canada was published as Treasury Decision 73-28 in the Federal Register of January 23, 1973 (38 F.R. 2210).

On April 5, 1974, a petition was received by the Treasury Department requesting revocation of the finding.

The Department has reviewed its previous determination of sales at less than fair value with respect to the merchandise in question. Using information available subsequent to the initial investigation concerning sales of the merchandise to the United States, it was determined that the purchase price of the merchandise remains lower than its home market price in a significant number of instances. Further, no assurances have been offered by any Canadian producer or exporter of the merchandise that future sales of northern bleached hardwood kraft pulp to the United States will be at not less than fair value.

Accordingly, the Department hereby affirms its determination that prime grade and off-grade northern bleached hardwood kraft pulp from Canada is being, and is likely to be,

sold at less than fair value within the meaning of section 201(a) of the Antidumping Act, 1921 (19 U.S.C. 160(a)).

Since the grounds upon which the petition for revocation is based relate primarily to considerations involving the injury determination of the Tariff Commission, the petition is being referred to the Tariff Commission for such review of its injury determination as the Commission may deem appropriate.

If the Tariff Commission, upon review of its injury determination, rescinds such determination, the Treasury Department will issue a notice revoking the finding of dumping, effective with respect to all merchandise entered, or withdrawn from warehouse, for consumption on or after the date of publication of notice of the Commission's decision in the Federal Register. If the Tariff Commission leaves unchanged its prior affirmative injury determination, the finding shall continue in effect.

This notice is published pursuant to the general provisions of section 153.41 of the Customs Regulations (19 CFR 153.41).

[Seal] JUN 26 1974 Assistant Secretary of the Treasury.

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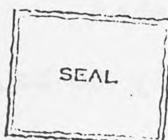

CERTIFIED TO BE A TRUE COPY OF THE ORIGINAL

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

ASSISTANT SECRETARY

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Re: Canadian Northern Bleached
Hardwood Pulp --
Antidumping Action

Thank you for your recent communication regarding the antidumping action on Canadian Northern Bleached Hardwood Kraft Pulp. Secretary Simon expressed to me the need for urgent action on this matter, and I can now report the following progress.

Because a finding of dumping requires a determination (1) by the Treasury Department of probable or actual sales at less than fair value and (2) by the Tariff Commission of probable or actual injury, the Treasury has followed a policy, which we believe is legally required, that one of these two determinations be withdrawn before the dumping finding can be revoked. It is in the area of the Tariff Commission to determine whether the injury determination can be withdrawn based upon changed circumstances.

The information which Treasury has received concerning industry conditions deals mainly with the conditions of the pulp market and the impact of the dumping finding on U.S. companies. These factors relate to the injury aspect of antidumping proceedings, the province of the U.S. Tariff Commission.

After informally consulting with the Commission, the Treasury Department has ascertained that the Commission does believe that it can, upon a referral from the Treasury Department with a new determination of sales at less than fair value or likelihood thereof, assume jurisdiction to redetermine the question of injury in the light of changed circumstances. We have therefore prepared a referral to the Tariff Commission and are forwarding it to them today. The new determination of sales at less than fair value will be published in the Federal Register of June 28.

Shortages of essential commodities at non-inflationary prices are a serious problem confronting the United States today. The Administration has proposed a revision to the pending Trade Bill designed to deal with

this problem, and further possible revisions of this Bill are under active consideration in the Treasury. I sincerely hope that these amendments will in the future help to ensure adequate resource supplies at reasonable prices.

Sincerely yours,

David R. Macdonald
Assistant Secretary
(Enforcement, Operations,
and Tariff Affairs)

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WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR IMMEDIATE RELEASE June 26, 1974

SECRETARY PRESENTED HONORARY MEMBERSHIP IN ACCOUNTANTS' ASSOCIATION

Secretary of the Treasury William E. Simon was presented an honorary membership by the Federal Government Accountants Association for his outstanding leadership in financial management.

Mr. Harry Levine, the national president of the association, congratulated the Secretary on his success in having the Comptroller of the State of New York agree to furnish reports on revenue sharing and establish accountability in the manner in which this money was spent.

Mr. Levine pledged the full support of the resources of the Federal Government Accountants Association to assist the Secretary in accomplishing his objectives of holding down inflation and mitigating energy shortages.

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WS-45

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

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FOR IMMEDIATE RELEASE June 27,1974

STATEMENT BY THE SECRETARY

Secretary of the Treasury William E. Simon today issued the following statement:

"The President's announcement today of his intention to nominate two distinguished Americans to high Treasury posts completes the team of highly qualified men and women whom I have asked to work with me.

"The President's intention to nominate Stephen S. Gardner to be Deputy Secretary of the Treasury -- the Department's number two position -- will bring to us an energetic leader who has built a nationwide banking reputation through his leadership at the Girard Trust, and who has won public honor and respect as Chairman of the Greater Philadelphia Movement, member of the Philadelphia School Board, and member of a special Mayor's Committee. He is a perceptive, solution-oriented and creative American who will help me, help this Department and help the country.

"At the same time, the President has announced that he intends to nominate Richard R. Albrecht as General Counsel of the Treasury. This means that we will shortly have as the Department's top legal advisor a highly skilled and experienced attorney who also brings an impressive record of participation in civic affairs. His expertise will be particularly beneficial as the Treasury works on such wide ranging areas as tax reform, tariff administration, and international monetary reform.

"I hope the Senate will speedily approve both nominations. I know their contributions will be of great benefit to the country."

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(Biographies attached)

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Mr. Albrecht has been with the law firm of Perkins, Coie, Stone, Olsen, and Williams in Seattle, Washington, since 1961, and was named as partner in 1968. He is presently Chairman of the Washington State Council on Higher Education, and received the Oustanding Citizen of the Year Award in 1969 from the Seattle-King County Municipal League.

He was born on August 29, 1932 in Storm Lake, Iowa. He was graduated from the University of Iowa with a B.A. in 1958 and a J.D. with highest honoros in 1961. He is married to the former Constance Berg and has four sons.

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Mr. Gardner is presently the Chairman of the Board of the Girard Trust Bank in Philadelphia. He served as President of the Girard Trust Bank from 1966 to 1971. He is the Chairman of the Greater Philadelphia Movement, Director of the Philadelphia Orchestra Association, the YMCA Foundation, and the Philadelphia College of Art. In addition, he is a member of the World Affairs Council and the Philadelphia Club.

He was born on December 26, 1921, in Wakefield, Massachusetts. He was educated at Boston University, Harvard College, and received his MBA from Harvard Graduate School of Business Administration in 1949. He is married and has five children.

# # #

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

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FOR RELEASE AT NOON SATURDAY, JUNE 29, 1974

Attached is a fact sheet and the text of a long-term agreement between the U.S. and U.S.S.R. to facilitate economic, industrial and technical cooperation. The agreement was signed in Moscow June 29, 1974. This information is embargoed from use on any wire or in any way until noon (EDT) Saturday, June 29, 1974.

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LONG TERM AGREEMENT BETWEEN THE US AND THE USSR TO FACILITATE ECONOMIC, INDUSTRIAL, AND TECHNICAL COOPERATION

FACT SHEET

The conclusion of a Long-Term Agreement Between the US and the USSR to facilitate economic, industrial, and technical cooperation is consistent with the US objective of encouraging the longer-term expansion and more balanced growth of US-Soviet trade. The agreement, which is to remain in force for ten years, establishes a broad framework for exchanging information and views on important economic undertakings between the two countries, and for encouraging discussions on potential cooperation projects between private US firms and Soviet foreign trade and other organizations. Although similar in substance and intent to other long-term economic cooperation agreements concluded by many Western industrial nations with the Soviet Union, provision in the US agreement with the USSR for an annual exchange of economic information and for a series of business facilitation measures are believed to be unique in agreements of this kind. The Joint US-USSR Commercial Commission, established pursuant to the communique of May 26, 1972, will monitor the implementation of the agreement.

The long-term agreement is intended to complement the Agreement on Trade concluded by the United States and the Soviet Union on October 18, 1972. The Administration remains fully committed to bringing the 1972 trade agreement into force by obtaining the authority to grant non-discriminatory tariff treatment to the USSR. The long-term agreement does not represent any change in the existing system of carefully screening all transactions to ensure that American goods and technology will be exported solely for peaceful purposes.

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Trade and Long-Term Cooperation

US-Soviet trade has developed rapidly since the trade agreement and the lend lease accord were concluded in October 1972. Bilateral trade in 1973 totaled $1.4 billion, and trade exchanges in 1974 are likely to approximate last year's high level. The two countries are well on their way to surpassing the goal announced in the June 1973 summit communique of achieving a total trade turnover of $2-3 billion during the three-year period 1973-1975.

Over the longer term, US machinery and equipment exports to the Soviet Union are expected to grow substantially. The USSR is seeking US equipment to help implement large development projects currently being considered for inclusion in its new Five Year Plan. It has particularly singled out cooperative long-term ventures with US firms, i.e., transactions in which exports of US equipment would be repaid in products of the new facilities, as offering the best chance for large, continuing growth in US-Soviet trade.

Over the past two years, industrial contracts between US firms and Soviet organizations have totaled about $800 million, and will continue to generate substantial US exports in the years ahead. Exports of US machinery, in large part accounted for by deliveries to the Kama Truck plant, will increase from $200 million in 1973 to perhaps $300-400 million this year. The recently approved Eximbank loan for the Occidental fertilizer project will support $400 million in US exports over the next few years. And five other large contracts will result in an additional $200 million in US exports to the USSR. US firms and Soviet organizations are currently exploring or negotiating long-term contracts in such diverse areas as automotive production, extraction and processing of high energy consuming minerals, oil and gas development, electronics, chemicals, timber products, consumer goods production, and the improvement of tourist facilities. The long term economic cooperation agreement should help further to define and broaden areas for mutually beneficial long-term cooperation in the future between US companies and Soviet organizations.

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Main Provisions

Long Term Cooperation

The agreement provides that both governments will use their good offices to facilitate the purchase and sale of machinery and equipment for the construction, modernization and expansion of production facilities in the two countries; trade in raw materials, agricultural products, finished products and consumer goods and services; and the purchase, sale, and licensing of patent rights and proprietary industrial know-how, designs and processes. It also provides for cooperation in the training and exchange of specialists, and for joint efforts, through the export of machinery and equipment, in the construction of industrial and other facilities in third countries. The economic undertakings foreseen by this agreement are not limited to long-term, large-scale projects; shorter-term transactions by small and medium sized US firms are also encouraged. It is also anticipated that the USSR will enter into new cooperation projects in the United States.

Information Exchange

A most important provision of the agreement provides for a working group of national experts to meet annually to exchange data and forecasts on basic economic, industrial and commercial trends in the two countries. These regular information exchanges should assist US firms and Soviet foreign trade and other economic organizations in determining the fields of cooperation most likely to provide a basis for mutually beneficial contracts, and in facilitating their long-term business and economic planning. The first meeting of these experts is expected to take place before the end of this year.

Business Facilitation

To help promote long-term economic cooperation between the two countries, the agreement also provides that each party undertake to facilitate the working and operating conditions of business representatives of the other on its territory. Article 4 of the agreement, therefore, notes that both parties will facilitate, as

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appropriate, the acquisition of suitable business and residential premises for commercial firms and organizations and their employees, the import of essential office equipment and supplies, the hiring of staffs, the issuance of visas, and the travel by commercial representatives for business purposes.

Seventeen US firms have now received Soviet accreditation to open offices in Moscow, and more than half of them have already done so. With the long-term expansion of trade and economic relations foreseen by this agreement, additional US firms are likely to seek such accreditation in the future. The construction of an international trade center complex in Moscow, in which US firms are participating, will add significantly to the commercial facilities available to American and other foreign companies in the USSR.

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LONG TERM AGREEMENT
BETWEEN
THE UNITED STATES OF AMERICA AND
THE UNION OF SOVIET SOCIALIST REPUBLICS
TO FACILITATE ECONOMIC, INDUSTRIAL, AND TECHNICAL COOPERATION

The United States of America and the Union of Soviet Socialist Republics,

Desiring to promote continuing orderly expansion of economic, industrial, and technical cooperation and the exchange of relevant information to facilitate such cooperation between the two countries and their competent organizations, enterprises, and firms on a long term and mutually beneficial basis,

Guided by the Basic Principles of Relations between the United States of America and the Union of Soviet Socialist Republics of May 29, 1972, the Joint American-Soviet Communiqué of June 24, 1973, and the principles set forth in the Agreement between the Government of the United States of America and the Government of the Union of Soviet Socialist Republics Regarding Trade dated October 18, 1972,

Have agreed as follows:

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ARTICLE I

The Parties shall use their good offices to facilitate economic, industrial, and technical cooperation in keeping with established practices and applicable laws and regulations in the respective countries.

ARTICLE II

Cooperation which shall be facilitated as contemplated in Article 1 shall include:

a. purchases and sales of machinery and equipment for the construction of new enterprises and for the expansion and modernization of existing enterprises in the fields of raw materials, agriculture, machinery and equipment, finished products, consumer goods, and services;

b. purchases and sales of raw materials, agricultural products, finished products, consumer goods, and services;

c. purchases, sales and licensing of patent rights and proprietary industrial know-how, designs, and processes;

d. training of technicians and exchange of specialists; and

e. joint efforts, where appropriate, in the construction of industrial and other facilities in third countries, particularly through supply of machinery and equipment.

ARTICLE III

In order to assist relevant organizations, enterprises, and firms of both countries in determining the fields of cooperation most likely to provide a basis for mutually beneficial contracts, a working group of experts convened by the Commission mentioned in Article 5 shall meet not less frequently than once a year to

exchange information and forecasts of basic economic, industrial, and commercial trends.

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ARTICLE IV

To promote the cooperation foreseen in this Agreement the Parties undertake to facilitate, as appropriate, the acquisition or lease of suitable business and residential premises by organizations, enterprises, and firms of the other party and their employees; the importation of essential office equipment and supplies; the hiring of staffs; the issuance of visas, including multiple entry visas, to qualified officials and representatives of such organizations, enterprises, and firms and to members of their immediate families; and travel by such persons for business purposes in the territory of the receiving country.

ARTICLE V

The US-USSR Commercial Commission established pursuant to the Communique of May 26, 1972, is authorized and directed to monitor the practical implementation of this Agreement, when necessary jointly with other American-Soviet bodies created by agreement between the Governments of the two countries, with a view to facilitating the cooperation contemplated in this Agreement.

ARTICLE VI

This Agreement shall enter into force on the date of its signature, and shall remain in force for 10 years.

The Parties shall agree not later than six months prior to the expiration of the above period upon measures which may be necessary to facilitate further development of economic, industrial, and technical cooperation.

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DONE at Moscow on 1974, in duplicate, in the English and Russian languages, both texts being equally authentic.

FOR THE UNITED STATES OF AMERICA:

FOR THE UNION OF SOVIET SOCIALIST REPUBLICS:

UNITED STATES DEPARTMENT OF THE TREASURY

OFFICE OF THE SECRETARY

Fourth Floor Conference Room
Department of the Treasury

SATURDAY, June 29, 1974

PRESS CONFERENCE

on

LONG-TERM AGREEMENT BETWEEN THE U.S. AND U.S.S.R.
TO FACILITATE ECONOMIC, INDUSTRIAL AND TECHNICAL COOPERATION

PARTICIPANTS:

HONORABLE JACK F. BENNETT
Under-Secretary of the Treasury

HONORABLE LEW BOWDEN,
Acting Deputy Assistant Secretary of Commerce for East-West Trade

HOMORABLE JOHN ARMITAGE,
Deputy Assistant Secretary of State for Eastern Europe

PHILIP R. TRIMBLE, ESQ.
State Department Legal Office

and

MEMBERS OF THE PRESS

INTRODUCTION BY:

MR. JACK PLUM
Public Affairs, Treasury

MR. PLUM: Gentlemen.

Under Secretary Bennett will make a few remarks, and then be open to questioning on the long term agreement between the United States and the Soviet Union to facilitate economic, industrial and technical cooperation.

Mr. Bennett will introduce some of the representatives, here, from the Commerce and State Departments.

SECRETARY BENNETT: I appreciate your coming on Saturday. I am really surprised. I thought there were going to be more of us than of you!

You seem to have more present.

As you know, the agreement was signed by the President and General Secretary Brezhnev this morning. It occurred to us that you might want a little background and you might want somebody good to question, and I have some good ones here to answer questions:

Lew Bowden, who is the Acting Deputy Assistant Secretary of Commerce for East-West Trade;

John Armitage, Deputy Assistant Secretary of State for Eastern Europe;

Phillip Trimble, from the State Department Legal Office.

I might explain why I am holding the briefing. As you know, there was a Commercial Commission established in July, two years ago, chaired first by Secretary of Commerce

Peterson; then by Secretary Shultz; and now by Secretary Simon. I have been on this Commercial Commission since then, and Lew has been the Executive Secretary.

At our meeting of the Commission last October in Moscow, the question came up of the possible desirability of a long-term economic agreement. It was decided at that meeting to set up a working group chaired on the Soviet side by Deputy Foreign Trade Minister Manzhulo; and on our side, we have been serving. We had subsequent working-group meetings in Vienna and Washington; and finally reached an agreement on a draft which we recommended to the meeting of the Commercial Commission that took place here in Washington last month.

That agreement was accepted, and the two sides recommended, to General Secretary Brezhnev and the President, that it be signed at the Summit, and it has been signed.

There were two features in this agreement. I trust you all have copies of the agreement and the background statement, which were of particular interest to us.

Firstly, the Foreign Trade officials in the Soviet, and our traders that deal with them, tell us that the rigidities of the Soviet planning process are such that it is helpful to have, in writing, approved at the highest level, a statement that certain things are possible that assist in getting particular pieces of business done, and particular things

fitted into the plans.

Secondly, we sometimes feel that the Soviets don't have as full appreciation as we do of the value of information exchange in terms of making it possible to know where to concentrate commercial effort.

Both of these features, we think, are taken care of in this agreement. It contains a very broad listing of the types of activity that are possible.

Secondly, it has set up a unique new procedure to try to enhance the exchange of information.

This agreement has similarities, of course, with the long-term agreements that the Soviets have been signing for the last few years with Germany, France, Finland, etc. -- a number of other Countries.

It does have one new feature. Instead of listing once and for all a list of the industries where it is felt that trading and investment can take place, this one sets up a more flexible procedure for at least an annual meeting to try to exchange information in these fields; and the basic economic factors to facilitate on our side, the private companies knowing where to concentrate their effort.

We think that how successful this will be, of course, will depend on how well we make it work out in practice. This thing is not in any sense a substitute for the Trade Bill; but it is a supplement. We think it is a useful

supplement. We still, of course, anticipate and hope that the Trade Bill will be finally passed before the summer is over, and we know that Senator Long's Committee has it in mock-up.

On this agreement itself, the next step is for us to write a letter, I think, to Minister Patolichev and propose a time, and a place, and who the members of our delegation will be, in the first meeting.

Lew, do you have anything you want to add to that?

MR. BOWDEN: No! It seems to me that you have about covered it, Jack. I would be happy to answer any questions later on.

MR. ARMITAGE: No!

MR. TRIMBLE: No!

SECRETARY BENNETT: There are, of course, some items that have already appeared in the papers, this morning, from Moscow, but does anything occur to you that you would like to ask?

MEMBER OF THE PRESS: The agreement mentions, just in general, things like finished products, and consumer goods and services.

Will the Commission that meets annually draw up a list of acceptable imports?

SECRETARY BENNETT: A list of what?

MEMBER OF THE PRESS: A list of acceptable imports to the Soviet Union.

SECRETARY BENNETT: I doubt that it will ever try to draw up a list, and say, "This lists acceptable imports; and others are not acceptable".

On the other hand, we may care to further the process which has already begun. For example, last year when we were there, the Russians said that it occurred to them that there could be a fair chance for business in some of the activities that are particularly heavy consumers of energy. They have a fair amount of that in some areas, and they listed some. For example, in the Aluminum process. The Department of Commerce then passes that information to the Industry associations -- [illegible]. You have seen the announcements of Kaiser, for example, active in the discussions. We may carry that process further, but I don't think it is anticipated that we will say, "This list is possible; nothing else is." I don't think we will ever try to make an exclusive list.

MR. BOWDEN: During the meetings of this group, which exchanges information, which is foreseen by the agreement, I would hope we could discuss things that are more probable for moving in trade than things that are not more probable; but I would think that would be one of the functions of the group.

MEMBER OF THE PRESS: Mr. Bennett, this isn't exactly in the agreement, but where do we stand now on the natural gas?

SECRETARY BENNETT: Well, the request for Export/Import Bank normal credit assistance on purchasing some U.S. equipment to be used in exploration for gas is before the Bank: That is entirely separate from the negotiations of the American consortium for possibly entering into a long term contract to buy some Soviet gas on the Pacific side -- the El Paso consortium. That is entirely separate from the separate negotiations under way with the Tenneco Texas eastern group for possible signing of a long-term contract to buy some gas in the so-called "North Star" project up in the Murmansk area. So there are three different projects.

The only one that is before the U. S. Government is the request for export credit assistance on some export equipment. I believe it is in the order of $49 millions worth of loan. The loan would be to the Soviet authorities, and would be a full/pay obligation of the Soviet authorities, and not dependent in any way on finding gas, or there being any purchase of gas.

Companies are still talking about the long-term purchase, but in this unsettled world, when nobody knows what the price of oil or gas will be a couple of months from

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now, it may be a very difficult negotiation.

In any event, we have no request -- the U. S. Government -- for any improvements.

We do have, under consideration, the small loan, because we do believe that additional hydrocarbons, tributary to the Pacific, cannot help but be in our economic and National Security interest.

MEMBER OF THE PRESS: Would failure of Congress to increase the lending authority of the Ex-Im Bank in any way put a damper on this?

SECRETARY BENNETT: As you know, the one-month extension of the Ex-Im is up in the House on Monday and if approved by the Senate, we would like to not only get that one month extension, but /very quickly in that month, the full completion of Ex-Im authority.

We hope the outcome of that will be a procedure in which we can continue to do non-discriminatory business with the Soviets with whatever safeguards are necessary; but continue to do non-discriminatory business.

MEMBER OF THE PRESS: If that authority is not extended, if they hold it at the present level, will that in any way --

SECRETARY BENNETT (Interposing) Hold the authority at the present level?

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MEMBER OF THE PRESS: Yes!

SECRETARY BENNETT: If they hold the authority at the present level, the Bank will very soon be out of the opportunity to make more loans.

Of course, if they don't extend the authority, the Bank cannot make any loans. Sure, that would have some influence on competitiveness of our American exporters in trying to shift to the Soviet Union.

MEMBER OF THE PRESS: Have the Russians agreed, yet, to supply the needed information to the Ex-Im Bank; in which case they can receive the larger credits that would be necessary?

SECRETARY BENNETT: The Soviets have provided a fair amount of information on their Foreign Trade. They have never supplied any information on their Foreign Exchange Reserves, or on their external indebtedness. They recognize that before we would feel it was reasonable to make any large increase above the present level, that would be necessary.

On the other hand, we also have to take into account that their external financial position has greatly strengthened in about six months: Their two principal export commodities have gone up lunusually high in the World Price -- oil and gold.

MEMBER OF THE PRESS: Sir, I came late. You may have answered this already:

What is new in this agreement that had not been agreed to before in '72 and '73. What break-through are we seeing?

SECRETARY BENNETT: Well, the two things I started with: There is a somewhat more explicit listing of the scope of the types of activity that can be engaged in. On our side, it would never occur to us, in most cases, that it wasn't there, but the Soviets feel it is easier for them to do business if it is listed and approved at the higher level.

Secondly, we set up this new procedure that, in practice, provides a mechanism for increased information, and more specific procedures that create pressures and opportunities to provide the basic information and workings.

We have not, in this agreement, taken to pressure any particular American firm, but we have undertaken a procedure to sit down and try to provide information that will help.

MEMBER OF THE PRESS: Was this agreement necessary--in your opinion?

SECRETARY BENNETT: The agreement is not necessary in this sense: that business could have gone on. But we think, for the two reasons that I started with, that business will go on better,

(1) because it will be more easily fitted into the cumbersome Soviet planning process; and

(2) because it should provide more information to the businessmen as to what not to waste their time on, and what to give consideration to.

MEMBER OF THE PRESS: Is there anything in this agreement that would prevent a deal such as the Wheat deal which had an effect on the consumer?

SECRETARY BENNETT: The agreement here, of course, places no limitations on the export control administered by Mr. Bowden's office.

As far as Wheat itself, there are procedures in effect now that were not originally on prompt reporting of export contracts, so that there would be less opportunity for sales to be conducted in the degree of lack of knowledge that some of the private contractors negotiated that the first time around.

There is nothing, in here, specifically designed to prevent any Wheat deal. This is to provide, however, more information on the economy to the extent you can get some more information about the economy, predicting basic demand, and ought to be at a higher level of quality.

You can't predict the weather, but you can at least, maybe, get some information that will still lead you to know the basic trends.

MEMBER OF THE PRESS: Are Soviet crop conditions at all covered, specifically, by information exchange?

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SECRETARY BENNETT: There is already an agreement on that subject, between the U.S. and the U.S.S.R. Agricultural Commission, that would be even more specific than this one, here.

MEMBER OF THE PRESS: Have the Russians satisfactorily lived up to that agreement?

SECRETARY BENNETT: Our people think that more information is appropriate than we have had so far, and we are continuing to work on it.

MEMBER OF THE PRESS: Sir, was this more a political than a practical agreement?

SECRETARY BENNETT: Do you mean: Does it try to make a conference look like it accomplished something?

MEMBER OF THE PRESS: That is the impression I am getting.

SECRETARY BENNETT: Well, I guess you were late, but this thing started a long time ago, in the sense that the Soviets let us know almost a year ago that this is a subject they had been negotiating with other Countries, and put a lot of importance on.

What do we think?

It took a long time to negotiate an agreement that we thought did not put any constraints on us, but which was desired.

It started in October, and there were a series of

meetings in between. So it was not just something that was dreamed up this summer. It is a thing we worked up over a long period of time. It happened to be available now, and it is important that it be signed at the top level. I don't think you could say it's window dressing, no!

MEMBER OF THE PRESS: Yesterday in the State Department, Sawhill released an agreement that was signed with Russia on the Energy; the Exchange of Information and Scientists, etc.

How does this have a bearing? This seems to be just a general agreement on everything.

SECRETARY BENNETT: Well, as I understand that agreement -- and I have not been involved in recent weeks in that -- it has more to do with Technology, and this has to do with economic conditions that permit specific trades; specific needs. That has to do more with sharing of technology. I suppose you could fit in some technological exchange here. But this is to generate information to put before the business people; to say, "Well, this is a good place to, maybe, send a fellow to Moscow, or invite a Russian over here. Maybe this isn't."

Now, that goes more to exchange of information that might have a role on what the Government policy is on project independence, and so forth: how we can develop this energy source, or that energy source.

In one degree of generality, it's all "information", but it seems to be of somewhat different character.

MEMBER OF THE PRESS: If this was an agreement of some substance, Mr. Bennett, why didn't you, Mr. Bowden, Secretary Dent, or Ambassador Eberle, or some high ranking U.S. Commercial Official, go to Moscow on this trip to represent this agreement?

SECRETARY BENNETT: Well, as I said, I think it is important that it be signed by the top people. There was no point in our going to sign to achieve a purpose within the Soviet Union. It was important that it be signed at the top level.

If there had been serious, unsettled, points which we expected, or which came up, we should have been there, and we could have been there. But, as I say, we reached agreement first in the working group, and then in the joint commission last month and, earlier this month, recommended the signature and there seemed to be no hitch. So I see no need for us to be there.

I have been over there four times in the last couple of years. That is enough!

MR. PLUM: Any more questions?

MEMBER OF THE PRESS: Yes. I did have one more question.

On page 6 you say that patents will be available to the Russians.

Is that my correct understanding of it. That is under ARTICLE II, c.

" * * * purchases, sales and licensing of patent rights and proprietary industrial know-how, designs, and processes; * * * ".

Will the Russians, then, be able to patent their products in this Country?

SECRETARY BENNETT: They always have been.

MEMBER OF THE PRESS: If they always have been, what is the reason for it being stated here in this agreement?

Just to "officiate it" more?

SECRETARY BENNETT: As I said before, they have bureaucrats at different levels. If you want to deal with a bureaucrat at this level, and you want to propose something, you want to be able to say, "Look! It says right here that this is feasible and proper." He can say, "Yes, I agree. Let's talk about it."

They get very legalistic. If you are dealing, you want to be able to show by Holy Writ somewhere that this is possible.

MEMBER OF THE PRESS: You are saying that the Russians sort of insisted on this because of their bureaucratic

ways, whatever?

SECRETARY BENNETT: I am not saying they "insisted" on it. I am saying that they -- the Foreign Trades people and the trading people in the other Ministry -- said, "This is a good thing to facilitate trade." Our traders that deal with them agree with that. So we think it is in OUR interest.

MEMBER OF THE PRESS: A lot of these things have been going on?

SECRETARY BENNETT: Sure.

There is no rule, now, that says you can't purchase or sell raw materials, or you can't license patent rights. This is the other way around. It states it positively. Anybody can refer to it.

You know, whenever a Russian makes a speech to an American, he goes all the way back to the first document and refers to the Basic Agreement of May '72.

MEMBER OF THE PRESS: I think there is a vulgar bureaucratic term called C.Y.A. that takes care of that. Without it, you have to buck it all the way to the top before it comes back again.

SECRETARY BENNETT: I think there is something to that.

MEMBER OF THE PRESS: Have there been many U.S. manufacturers applying for trade with Russia?

SECRETARY BENNETT: Seventeen of them already

have offices there. Yes.

MEMBER OF THE PRESS: Will this open up the field to them; open up the gate to them?

SECRETARY BENNETT: It is a matter of degree. We think that this will. The hotels are full of Americans, over there, already. This ought to make some contribution to easing their life. There are references in here that we can use in talking to the Russians about improving the facilities that are made available to them; suitable business and residential premises; multiple issuance of visas. In the continuing process of getting decent facilities for the Americans to work in, it is always nice to have something like this to point to.

MEMBER OF THE PRESS: They could get along without it.

SECRETARY BENNETT: Sure. This is not life or death, but it is useful. And, in practice, it's agreed utility will depend on how smart we are, and how effectively we work in this realm; and it also is a long-term teacher to them. It gets people to recognize that this is something that is going to be around for a while. It is something that, I think, contributes to good relations. But it doesn't give anybody M.F.N. We still need that.

MEMBER OF THE PRESS: Will you have a decrease of all of this export control, export controlled items, as a result

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of this Agreement?

SECRETARY BENNETT: This has no effect whatsoever on the export control.

MEMBER OF THE PRESS: Thank you, Mr. Bennett.

SECRETARY BENNETT: I appreciate your coming in on Saturday.

MR. PLUM: Ladies and gentlemen, there is an embargo, as you will note, until noon, on this information.

(Whereupon, at 10:30 o'clock, a.m., the Press Conference was concluded.)

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