U.S. Treasury Dept.

Press Releases.
111

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

EMBARGOED: NOT TO MOVED BY WIRE
OR USED IN ANY MANNER PRIOR TO
12:00 NOON, EDT, MONDAY, JULY 1, 1974

REPORT CONFIRMS NEED FOR
TAX AND LOAN ACCOUNTS

Tax and loan accounts of the Treasury Department continue to be of major importance as a tool for monetary management and as a highly efficient collection system, findings of a report released today showed.

The report concluded, however, that with the higher level of interst rates prevalent in recent years, the implicit costs to the Treasury of tax and loan accounts has risen substantially beyond the value to the Treasury of the services that have been inherently or traditionally associated with such accounts.

The Treasury report is based on a study that included analysis of responses to a questionnaire sent to 600 banks, 300 with the largest Treasury tax and loan accounts and a sampling of 300 of the remaining 12,700 banks.

Basically demand deposits, left with banks for short periods at no interest, the tax and loan accounts represent tax payments by business concerns to their own banks, which in a bookkeeping transaction, debit the business customers and credit Treasury's balances.

While tax and loan accounts should be retained, said the Treasury report, means should be developed (1) for employing a portion of the funds in ways that provide added returns to the Treasury, and (2) for compensating banks for a limited number of services performed by fees paid from appropriations.

Legislation is required in both instances, to make possible the most efficient employment of Treasury cash in interest-bearing assets, and to provide appropriations for payments for certain services performed by financial institutions, according to the report.

WS-46

(OVER)

As an interim measure, pending Congressional action on investment authority, it is Treasury's intention, said the report, "to pursue vigorously the two avenues that are clearly available without legal or regulatory changes:

"First, we will intensify our efforts to increase our balances at the Federal Reserve Banks to the extent consistent with money-market stability; conversely, this will decrease our balances in tax and loan accounts. This necessarily means that the Federal Reserve System will have to compensate for greater swings in the Treasury balance at Federal Reserve Banks through existing techniques such as open market operations.

"Second, we will experiment with placing funds in 30-day time deposits."

As for how banks should be compensated for services they perform for the Government, the report said that nearly all banks included in the study had earnings value well in excess of the cost of services provided, "but some far more than others, even when the average tax and loan balances were comparable in size." There was no consistency, said the report, in the relationship between the earning value of tax and loan accounts and the scope or volume of services provided by banks for the Government, "whatever services might be considered in the Government's behalf."

In order to adjust the differences, the report suggested that certain services rendered by banks which Treasury believes should be compensable, but which are not directly related to the existence of the tax and loan accounts, might be compensated for from appropriated funds.

For those services that are within the Treasury's area of responsibility, the belief was expressed that only those relating to savings bonds should be compensable through appropriation -- specifically issuance of savings bonds, redemption of savings bonds, and exchanges of 'E' for 'H' bonds. Services directly related to the tax and loan account can appropriately be compensated for through the residual earnings value of the accounts, the report said.

In the nearly ten years since the last study of the subject, the amount of taxes flowing through tax and loan accounts has quadrupled, the size of account balances has risen, and interest rate levels have been higher (reaching two peaks when rates were the highest in U.S. history), thus providing significantly greater earnings potential on tax and loan balances. At the same time, the services banks have provided the government have declined.

oOo

Department
of the Treasury

June 1974

REPORT ON A STUDY OF TAX AND LOAN ACCOUNTS

REPORT

ON A STUDY OF

TAX AND LOAN ACCOUNTS

oOo

June 1974

REPORT ON
A STUDY OF TAX AND LOAN ACCOUNTS
TREASURY DEPARTMENT

o

I. SUMMARY

After analyzing the responses to the current questionnaire and reappraising the tax and loan system, these conclusions have been reached:

- Although the system's strictly monetary purposes may be less crucial than in earlier years, tax and loan accounts remain of major importance as a monetary management tool and as a highly efficient collection system.

- At the higher level of interest rates prevailing in recent years, the implicit costs to the Treasury of holding interest-free tax and loan accounts has risen substantially beyond the value to the Treasury of those services provided by the banks that have been inherently or traditionally associated with such accounts.

- Tax and loan accounts should be retained, but means should be developed (1) for employing a portion of these funds in ways that provide added returns to the Treasury, and (2) for compensating banks for a limited number of services performed by fees paid from appropriations.

- Legislative actions will be required to make possible the most efficient employment of Treasury cash in interest-bearing assets and to provide appropriations for payments for certain services performed by financial institutions.

II. PURPOSE AND FUNCTION OF THE TREASURY TAX AND LOAN ACCOUNT SYSTEM

The tax and loan account system was originated in 1917 by Secretary of the Treasury McAdoo in the administration of President Wilson when the financing of World War I increased the size of the Federal Government's financial operations. Over the years it has been improved and expanded, and it has been expressly or impliedly endorsed by every Secretary of the Treasury, Democratic and Republican.

Facilitating monetary policy

The principal purpose of the system originally -- to promote the smooth functioning of the economy by reducing the impact of Government financial operations on the distribution and level of bank reserves and on the money market -- is still of major importance.

The peaks and valleys in the timing of the flow of money between the public and the Government would be, without some device for smoothing them out or compensating for them, of sufficient magnitude to cause sharp changes in bank reserves, resulting in undesirable fluctuations in money market interest rates and in the availability of loanable funds in the banking system. Treasury tax and loan accounts were devised to prevent these drastic swings. As taxes are paid and as banks subscribe for new issues of designated Treasury securities (for their own or customers' accounts), the funds are transferred on each bank's books from the payer's account to the Treasury's tax and loan account. The Treasury can then draw down the tax and loan balances as it actually needs funds to cover disbursements, thereby matching the flow of collections with the flow of payments, minimizing their impact on bank reserves and the money market.

At one time the Treasury attempted to keep its balance at the Federal Reserve as near a constant level as possible, striving thereby to neutralize the money market effect of Treasury financial operations. In recent years, however, the Treasury has sought to increase its Federal Reserve balance when its total balances are relatively high in order to minimize the size of its idle tax and loan balance. Thus the Treasury balances are being managed in a way designed to capture for the Treasury (via increased earnings of the Federal Reserve) greater earnings without subverting the system's original purpose of smoothing out extreme fluctuations in bank reserves and distortions in the money market.

As described later, the nature of this money market and banking problem has changed in recent years from large seasonal fluctuations in Treasury receipts to sharp day-to-day shifts in net cash requirements.

<u>Fostering distribution of Treasury securities</u>

Another of the original purposes of the system was to facilitate the distribution of huge issues of Treasury securities by providing an incentive for banks to serve as "underwriters," holding the securities for a period until an investment demand developed. Since the Treasury must meet its needs for cash by borrowing in relatively large blocks, a sale of Treasury securities would, without a device such as the tax and loan account system, create abrupt fluctuations in bank reserves and tend to result in congestion and higher rates in the market for newly-offered securities. In some situations, by letting each bank subscribing for securities pay for them by crediting its own tax and loan account, the system has provided a means, as described above, of avoiding this disruption. At the same time, the system has provided an incentive to the banks, in the form of a few days' delay in relinquishing payment, for subscribing to a new issue. This incentive has served its purpose of building an "underwriting" network for Treasury securities that has helped enable the Treasury, alone among major issuers, to market securities without commissions or spreads of any kind.

With the market for Treasury securities now more highly developed the need for this method of distribution has tended to diminish, but it nevertheless continues to be a significant function of the tax and loan account system.

<u>Providing a collection system</u>

While the system was originally established for purposes of monetary management and the sale of securities, it has evolved over the years into a collection system that has significant advantages for the Government in the efficient inflow of most of its revenues, now handling nearly $200 billion of revenues annually. Each business concern makes tax payments through its own bank; the company's check, when drawn on its bank, does not have to flow beyond that bank. The bank charges its customer and simultaneously credits the Treasury tax and loan account. This saves delay in check clearings and avoids the expense to the Treasury of handling large volumes of remittances, which entail not only detailed internal processing and depositing in banks, but also burdens incident to returned uncollectible checks. To the extent that alternative collection systems would involve a delay in the deposit of receipts into usable Treasury balances -- and virtually all alternative systems would involve such delays -- the costs associated with tax and loan accounts would reappear in another, perhaps less identifiable, guise.

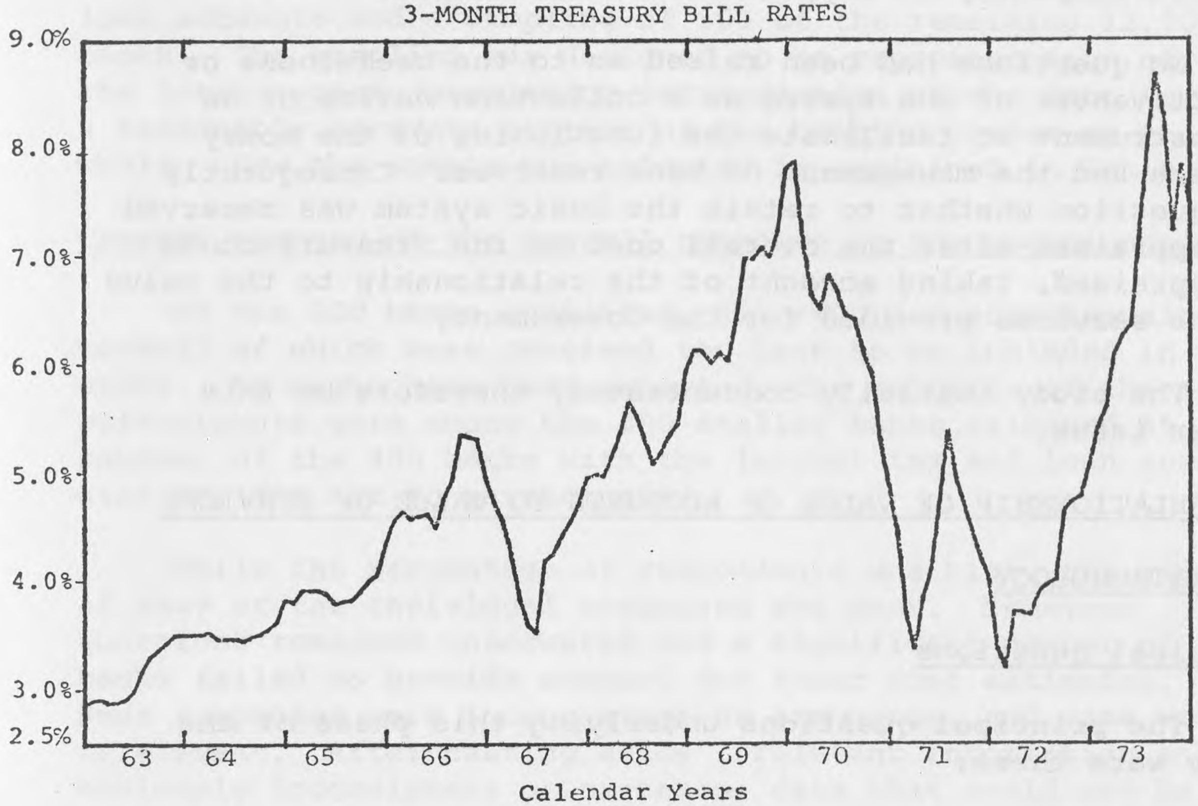
Along with the increase in dollar volume of taxes flowing through the tax and loan accounts has come an increase in the frequency of required payments. This has smoothed out the flow of receipts, a factor in the shift of emphasis from the monetary management uses of the tax and loan system to the economical collection objectives of the system.

III. PREVIOUS STUDIES

Studies by the Treasury in 1960 and 1964 explained in detail the purposes and operations of the tax and loan account system and the public benefits derived from it. These studies compared the earnings value to the banks (and implicit cost to the Treasury) of the interest-free deposits to the costs of services provided by banks -- all in aggregate terms.

The Treasury decided to make this study because almost ten years had elapsed since the last study of the relationship between the value of the tax and loan account balances and the services provided by banks. In that time, there had been a four-fold increase in the amount of taxes flowing through tax and loan accounts. Essentially because of the higher level of receipts and outlays of the Government, the size of tax and loan account balances had also increased, although this increase has been modest relative to the flow of payments through the accounts. The level of interest rates had also been higher, reaching two peaks when interest rates were the highest in U. S. history (as reflected in the following chart).

3-MONTH TREASURY BILL RATES



These rate levels have provided significantly greater earnings potential on tax and loan balances. And finally, it had become obvious through the Treasury's daily operations that banks were providing, without charge, fewer of the services to which values were attached in the previous studies.

Because of these changes, a thorough reappraisal of the system was in order.

IV. GOALS OF THE CURRENT STUDY

The goals of the study were to determine whether the tax and loan account system should be retained, and, if so, in what respects, if any, it should be altered.

No questions had been raised as to the usefulness or effectiveness of the system as a collection device or as an instrument to facilitate the functioning of the money markets and the management of bank reserves. Consequently the question whether to retain the basic system was reserved for appraisal after the overall cost to the Treasury could be appraised, taking account of the relationship to the value of the services provided for the Government.

The study initially concentrated, therefore on this latter issue.

V. RELATIONSHIP OF VALUE OF ACCOUNTS TO VALUE OF SERVICES

A. METHODOLOGY

Principal questions

The principal questions underlying this phase of the study were these:

- For which services, under present conditions, should banks continue to be compensated, and at what dollar values?
- Should services continue to be compensated for through tax and loan account balances or should any be compensated for through some other techniques?
- Should the value of services offset by tax and loan account balances be looked at in relation to each bank individually, or should the system-wide value of services and balances continue to be the guiding consideration?

Selection of banks to participate

The first step in seeking answers to the foregoing questions was to send a questionnaire, the text of which is set out in Exhibit 1, to 600 banks. The banks selected included the 300 banks with the largest Treasury tax and loan accounts and a sampling of 300 of the remaining 12,700 banks. The sampling was designed to be representative of the total system, permitting extrapolation of the data for a reasonably accurate picture of the banking system as a whole. How the sample was selected is explained in Exhibit 2.

Capsule summary of the overall response to the questionnaire

Of the 600 banks solicited, 557 returned questionnaires, several of which were received too late to be included in the study. As might have been expected, the majority of the non-participants were among the 300 smaller banks selected at random; of the 300 banks with the largest tax and loan accounts, nine saw fit not to participate.

While the percentage of respondents was high, the quality of many of the individual responses was poor. Numerous questions remained unanswered and a significant number of banks failed to provide support for their cost estimates. Some responses were inconsistent or erroneous, and some were irrelevant. After casting aside irrelevant information and obviously inconsistent or erroneous data that could not be corrected, the remaining data were used for the current study.

There was an extreme variation in unit costs among the reporting banks. For example, the costs reported for the handling of Federal tax deposits ranged from a low of 1-1/2¢ per transaction to a high of $3.10 per transaction. Similar ranges occurred in each category of service for which unit costs were reported. An extensive analysis of individual reports indicated a lack of any logical relationship between unit costs reported and factors which might have been expected to have a bearing on them. For example, attempts to relate unit costs to such factors as (1) geographical location of the bank, (2) size of the bank, (3) size of the city, and (4) unit banks vis-a-vis branch bank systems indicated no reasonable relationships. From reviewing the supporting data which some of the banks submitted, it appeared that the most significant single factor influencing the difference in reported unit cost was simply a difference in cost accounting techniques. Another factor, but of less significance, was the difference in the procedure followed in providing a particular service. In arriving at an average cost, we eliminated extremes at both ends and developed weighted averages for the remaining reporting banks. We then extrapolated this data for the groups that the reporting banks sampled, thereby arriving at an overall weighted average cost.

Analysis of services listed by Treasury

At the outset of the current study it was decided that it would be appropriate to assume that banks should be compensated by tax and loan account balances for services directly related to the handling of tax and loan accounts. These services are (1) the maintenance of the tax and loan account itself, and (2) the handling of Federal tax deposits through the tax and loan account. Because of this assumption, questions about these services were separated in the questionnaire as Part I.

It was also decided at the outset that it would be appropriate to assume that only these services were, without further question, compensable; the compensability of other services would depend upon the results of the study. Part II of the questionnaire, therefore, listed certain other services performed by banks on a voluntary basis and called for activity and cost data relating thereto. The questionnaire also solicited from banks their views as to any services they believed should be compensable by the Government. The questions in this Part, designed to assist in judging whether banks' costs should be compensable, were drafted upon these fundamental assumptions:

- If the service is provided primarily as a customer service or as a marketing device, the Treasury should not compensate the bank.

· If the cost of the service is in one way or another recovered by the bank from the individual recipient (not the Government), the Treasury should not disturb this relationship.

In view of this, the questionnaire told banks the Treasury would work on a hypothesis that if a bank does not provide a particular service to non-customers, or charges a fee to non-customers not charged to customers, the bank is providing the services to its customers on the basis of its overall relationship with them, and consequently any expense involved in providing the service to customers should not be compensable by the Government. Banks generally took no exception to this stated assumption, and it has been retained in the analyses set out below.

B. ANALYSIS OF SERVICES PERFORMED BY BANKS

Services listed by Treasury

The services listed by the Treasury in Part I of the questionnaire were the following:

1. Handling the tax and loan account itself, including Federal tax deposits

These are the only services which are exclusively related to the existence of a tax and loan account and assumed at the outset to be compensable. Reported activity and cost related to the handling of tax and loan accounts is reflected in Exhibit 3.

2. Handling subscriptions to United States securities (other than savings bonds) on original issue and handling matured United States securities

The Treasury was generally aware, before the responses were received, that significant changes had occurred in recent years in the practices of banks in charging fees for or refusing to provide these particular services. The data furnished, however, provided concrete information on this subject. The data are summarized in Exhibit 4, which shows that most banks do not handle subscriptions or matured securities without a fee. Of the 540 banks which were responsive to the question, only 108 indicated that they handled subscriptions for non-customers without a fee and only 13 of those 108 reported any actual subscriptions handled. These 13 banks reported handling 131 subscriptions for a total dollar value of $48,896,000. Even for customers, almost two-thirds of the responsive banks indicated either that they charge a fee or do not handle subscriptions at all. Responses concerning matured securities were similar, although more inclined to free service. With respect to non-customers, 219 of 538 responsive banks indicated they would handle matured securities without a fee, but only 57 reported any actual transactions. The 57 banks reported 2,438 transactions for a total dollar value of $175,327,000.

It appears from the foregoing that banks, in handling subscriptions for new issues and in handling matured Government securities, whether for customers or non-customers, generally operate on the basis that these services are provided for the benefit of the recipients of the service and at the recipients' expense. It would appear, therefore, that from their own behavior the banks have not accepted a responsibility to provide such services as an inherent part of their deposit relationship with the Treasury.

3. Redemption of savings bonds

For many years, banks and other financial institutions (e.g., savings and loan associations), acting as paying agents for the redemption of United States savings bonds, have been paid a fee from appropriations to the Treasury's Bureau of the Public Debt at the rate of 15¢ for each of the first 1,000 bonds redeemed during the quarter and 10¢ for each bond in excess of 1,000.

Of the banks responding, 33.5% indicated that the present fee is adequate. The remaining 66.5% indicated that the fee is not adequate. The details of activity and expenses with respect to the payment of savings bonds are contained in Exhibit 5.

This analysis would indicate that banks should be compensated by some method at a rate higher than the existing fee schedule provides. At present, the value of tax and loan accounts to the bank provides a form of compensation, but that compensation does not bear a close relationship to savings bond volume. Since banks are presently reimbursed for the payment of savings bonds on a fee basis, based on volume data readily available in the Bureau of the Public Debt, and since the same service is provided by other financial institutions (which do not have Treasury tax and loan accounts), a practicable approach would be to provide all or a greater portion of the needed compensation by raising the present fee.

4. Issuance of savings bonds

Data furnished by the banks on activity and costs in issuing United States savings bonds are summarized in Exhibit 6.

For payroll savings plans of employing firms, the savings bonds could be issued by Government offices or by the Federal Reserve Banks. It is obvious, however, that there are unique advantages in having the facilities of the commercial banks for over-the-counter sales. Also, if Government offices or Federal Reserve Banks were to do the job done by banks in payroll savings plans of business concerns, there would be additional direct expense to the Government. One question to be resolved is whether all issuing agents (including financial institutions other than banks) should be compensated for the issuance of savings bonds. If they ought to be compensated, the further question is how the amount of compensation should be determined, and the form that compensation should take. Any compensation to banks should take into consideration the alternative costs to the Government of obtaining the services. For example, on payroll issues the fee paid to banks should be set in light of the costs that would be incurred if the Government itself issued the bonds.

There is a public service tradition in the sale of savings bonds -- with many promotional services donated by employers, the Advertising Council, and others -- and banks' contributions by way of sales promotions are comparable to voluntary contributions by others. Costs associated with getting and controlling blank bond stock and with inscribing and delivering bonds to buyers are another matter. These are comparable to redemption costs for which a fee is well established. Further, the Government itself provides this service when it is not otherwise available for payroll issues. Consequently, it would appear that banks should be compensated for allocated costs incurred in the issuance of savings bonds, subject to the limitations of alternative cost criteria mentioned above. While such compensation for banks is now implicit in tax and loan accounts, a change to a fee system, as for redemptions, would be a straightforward possibility.

5. Handling of Treasury checks

Typically in the United States, the payee of a check is on his own in negotiating that check. A few exceptions to this general principle, not involving Treasury checks, include (a) requirements in a few states that employers making payroll payments by check make arrangements under which employees can cash their checks, and (b) arrangements that some states have made for welfare recipients to cash their welfare checks.

Data developed from the questionnaires, set out in Exhibit 7, indicate that a very small percentage of payees of Treasury checks cash such checks at banks where they do not have an account. This, however, does not necessarily indicate the extent to which payees do or do not have problems in negotiating their checks. Reports from banks indicate that in several large cities most banks do not cash Treasury checks for non-customers. Hence, payees of Treasury checks who do not have bank accounts presumably are cashing their checks at retail stores, check cashing agencies, etc. Although we do not receive many complaints in the Treasury directly, those we do receive are invariably from elderly, disabled or poverty-stricken people who do not have bank accounts and who can least afford the discounts, fees or transportation expenses that they must incur to get their checks cashed.

If the Treasury were to provide for unlimited free check-cashing facilities, by compensation to banks through the tax and loan accounts or otherwise, several highly undesirable results could ensue. One result would be to cause major disruptions in present practices that payees follow in cashing their checks, with no particular benefits derived. For example, employees at a particular Government installation in the center of a city who have bank accounts in suburban areas would likely, in many instances, cash payroll checks at a bank close to the installation if Treasury arranged with such bank to cash payroll checks for non-customers without charge. Since the employees are now able to negotiate their checks at their own banks, any action on our part would involve a substantial expense without offsetting advantage. Another undesirable result would be a negative impact on the trend toward the use of bank accounts by all members of our society, an objective which may become not only desirable but imperative when the growing volume of funds transfers becomes so great that new methods of handling them are required.

There seems to be no doubt that cashing checks for non-customers should not be made a compensable service generally. While check cashing arrangements may in some hardship cases become desirable as a matter of public policy, there appears to be no need or justification at this time for assumption by the Government of the responsibility for providing check cashing facilities for recipients of Treasury checks.

Services identified by banks

In addition to the services specifically covered in the questionnaire, banks were requested to report any other services they were performing on behalf of the Government for which they felt they were entitled to compensation by the Government. For purposes of analysis, a review of other services reported by banks has classified such services into two categories -- those performed voluntarily and those which are mandatory under specific statutory requirements. Services in these categories are discussed separately below.

1. Voluntary services

In analyzing the voluntary services listed by the banks, we applied the same criteria used to evaluate whether banks' costs of providing the specific services listed in the questionnaire by Treasury should be compensable.

The most frequently reported voluntary services, and the number of banks that submitted data with respect to each service, are set out in Exhibit 8. The reporting of these services required the following comments.

a. Making income tax forms available

The Treasury benefits from the service rendered by banks in stocking Internal Revenue Service forms and making them available to the public. Undoubtedly, banks do so not only as a customer service and as a marketing device, but also as a service to the public generally. This seems, however, to be a service that falls into a range of activities that banks undertake to promote a public service image rather than a service for which they should be directly compensated.

b. Handling United States commemorative coins

As with income tax forms, the Treasury gets some benefit from the service rendered by banks in making available to the public application forms for special commemorative coins, such as the Eisenhower silver dollar. For the same reasons cited in 'a' above, it does not appear that specific compensation is required.

c. Food stamp program

The custody and sale of food stamps is, by law, the responsibility of the States. The Federal program agency, the Department of Agriculture, gives the States the option of doing this work (i) through their own county or local agents, or (ii) by contractual arrangement with banks or other financial institutions.

When States elect to use their own facilities, they bear all the costs of custody and sale, even where banks are involved because the State agencies wish to use them for the custody of stamps. When States elect to contract with banks to handle sales, the contracts cover compensation for all their services.

Banks may also be involved in the program in handling the proceeds of stamp sales. When States use their own facilities for selling stamps, the proceeds may be delivered to banks either for deposit to the credit of the Treasury or for conversion to bank drafts for transmission to Federal Reserve Banks; in either capacity banks perform as Depositaries and Financial Agents of the Treasury and are compensated by Treasury balances other than tax and loan balances. When States contract with banks to sell stamps, disposing of the proceeds is not a separate step and the contracts providing compensation for selling stamps cover disposition of the proceeds.

Finally, banks may be involved in the program when they receive deposits of stamps taken in trade by their commercial customers. When banks receive these deposits, they are doing it as a part of their normal customer relationships, and as such compensation for the activity comes from the customers' accounts.

In sum, a source of compensation is provided for every service a bank may render in the food stamp program, and there is no need for providing additional compensation through tax and loan account balances.

d. Sale of Federal transfer stamps

A number of banks erroneously reported this as a service. These stamps were actually discontinued years ago. (Public Law 89-44, June 21, 1965.)

e. Exchange of 'E' bonds for 'H' bonds

Banks are presently reimbursed by fees for the redemption of series 'E' savings bonds. However, they render a valuable service to those individuals exchanging 'E' bonds for series 'H' savings bonds for which they are not compensated. The actual issuance of the 'H' bonds is handled by Federal Reserve Banks, but banks often assist the subscribers in filling out their applications. Since the total number of annual exchanges is less than 300,000, the overall impact on the banking system is, of course, not significant. It would appear, however, that banks should be compensated for the assistance provided in the conversion of 'E' bonds to 'H' bonds.

2. Mandatory services

In general, the mandatory services which banks listed in their completed questionnaires are services provided not only by banks but by other financial institutions and other business concerns. Since the Congress, in imposing the various reporting and record-keeping services which the banks listed, made no provision for compensation, we believe that if there is to be any compensation it should be provided by Congressional authorization. A list of the mandatory services most frequently reported by banks in their responses is set out in Exhibit 9. That list also reflects the number of banks reporting each of the services.

C. ANALYSIS OF EARNING VALUE OF TREASURY TAX AND LOAN ACCOUNTS

Two significant elements affect the earning value of Treasury tax and loan accounts: (1) the volatility of the balances, and (2) the requirement that these balances be collaterally secured. Because of these two elements, it would appear that it would be appropriate to invest the balances in short-term money market instruments which are in the class of securities eligible as collateral, and, for analyses purposes, to use the rate on one of these instruments as a measure of the earning value of the balances. The responses to the questions contained in the questionnaire concerning the earning value of the tax and loan account balances, summarized in Exhibit 10, indicate that this view was shared by many banks. In considering which specific category of money market rates should be used, it would appear that the Treasury bill rate is a reasonable measure. While many banks agreed that the value of balances was at least equivalent to the rate on Federal funds, this rate would not be appropriate for those banks that found it necessary to invest the tax and loan balances in securities eligible for collateral as contrasted to those banks that could pledge eligible securities from their existing portfolios.

While the difference between the Treasury bill rate and other money market rates varies considerably in the short run, the averages of each of the several categories of money market rates over time are not significantly different. Therefore, the use of the bill rate would not in the long run provide significantly different results from the use of other money market rates. An added factor in favor of utilizing the bill rate is that for those banks applying an earning factor in analyzing accounts of large customers, the 91-day Treasury bill rate is used more frequently than any other rate.

In summarizing the overall results of the study, the earning rate used was the average rate on new issues of Treasury 91-day bills during the five-year period ended December 31, 1972, which was 5.5%. While that is substantially less than the rate during the past few months on new issues of Treasury 91-day bills, it seemed more reasonable for purposes of the study to use a longer-term average.

In computing the earning value in the study, the average bill rate was adjusted to give effect to bank reserve requirements and to the Federal Deposit Insurance Corporation assessment, which is computed as a percentage of balances. The rates used, therefore, range between 4.51% and 5.06%, the difference being a function of the reserve requirement for the particular bank involved.

The problem of assessing the cost of tax and loan account deposits to the Treasury (as opposed to the value to the banks) introduces some additional complications. In concept, assuming appropriate legal powers and institutional arrangements were available, the Treasury could convert these funds to earnings assets, and considerations similar to those already discussed would be relevant. However, in practice (and apart from the money market problems that the tax and loan account system is designed to avoid) full investment of these balances would not be possible unless interest were to be paid on demand balances themselves. Indeed, alternative collection systems would appear to involve some lag between taxpayer payments and conversion of those payments into investable funds because of the time required for the recording and clearance of checks.

D. CONCLUSION

It is readily apparent that the aggregate earnings value of tax and loan accounts to the banks far exceeds the aggregate cost to banks of those services that are directly attributable to handling the account, principally the processing of tax deposits. For the 600 banks in the survey, imputed annual earnings exceeded the expenses of handling the accounts by $170 million. Projecting the survey data to the total universe of tax and loan depositaries, the estimated excess of imputed earnings was over $300 million. These data are summarized in Exhibit 11.

If the costs of issuing and redeeming savings bonds, the other services judged to be compensable (see later discussion), are added, banks in the aggregate still show a large excess of earnings value over service costs, an excess of $260 million based on the survey data.

It should be noted that this excess of earnings value does not purport to increase bank profits derived from tax and loan accounts nor the benefit that would accrue to the Federal budget from abandoning the tax and loan account system or from investing the deposits in earnings assets.

Many banks, in competing for tax and loan account deposits, may indirectly pass on part or all of the earnings value of a tax and loan account to the taxpaying customers. To this extent the result is to reduce the effective cost of banking services to the taxpaying public. In the case of new Treasury security issues, payable through the tax and loan account, part of the earnings value is reflected in lower costs of borrowing by the Treasury itself. Finally, to the extent bank profits are increased, the Federal budget would recover part of the earnings value through the corporate income tax.

Apart from the latter factor, the extent to which the Federal budget would benefit from a conversion of tax and loan accounts into earnings assets would depend upon the relative efficiency of alternative collection systems, their costs relative to costs now incurred by banks, and the efficiency that could be achieved in investing the balances. The latter consideration raises the further question of appropriate changes in regulatory or legislative provisions now limiting the Treasury's ability to invest cash balances.

In particular, it must be recognized that alternative collection systems would involve a delay in the conversion of checks in payment of taxes to usable Treasury balances and a corresponding delay in the payment of those checks by the drawee banks. Under the tax and loan system the payment by the drawee banks is accelerated when they receive tax deposits directly from their customers to the credit of tax and loan accounts. This must be considered in any analysis of the implicit cost of the system. If it were not compensated for banks would be motivated to decline to accept tax deposits from their customers because their investable funds would be reduced simply by the bank being a part of the tax and loan system.

Finally, assuming the tax and loan account system is retained, some profit in the handling of the accounts would presumably be necessary to provide those incentives to banks necessary for the effective operation of the system. If, for instance, capital equivalent to 5% of the average tax and loan balance in 1972 of $6.8 billion was appropriate (given that such balances are invested in high quality, liquid assets) a net return of some $44 million, before taxes, would be required to provide an after tax rate of 10% on invested capital.

Taking all these factors into account in appraising the earnings value of the tax and loan accounts, the conclusion is that:

- In recent years, in reflection of higher market interest rates, the implicit cost of the accounts to the Treasury (or to put it another way, the earnings value to the banks and their taxpaying customers) has risen to a multiple of the value of the related services provided the Treasury.

VI. RETENTION OF TAX AND LOAN ACCOUNTS

Money market purpose

Having concluded that in recent years the implicit cost to the Treasury of tax and loan accounts has risen substantially above the value of related services, it became necessary to reappraise the question whether the accounts should be retained in the form in which they have been known, i.e., in a form which leaves funds in the banking system to facilitate the functioning of the money markets and the management of bank reserves. The accounts could, of course, be retained solely as a collection device, with credits to the accounts passed through immediately to the Treasury's checking account at the Federal Reserve Banks, leaving only enough balance with each commercial bank to compensate it for handling the account. In the past, however, it has been felt that the national interest was best served by drawing funds from the banking system in a way that meshes as much as possible with the return of funds to the banking system through disbursements, thus facilitating Federal Reserve actions to regulate bank reserves. The result has been the balances in tax and loan accounts which we have concluded have earning values in excess of account servicing costs. The critical question, then, is whether the system should be revised to the extent of providing for transfers of funds into Federal Reserve Banks in excess of those which mesh with the Federal Reserve's efforts to regulate bank reserves, leaving it to the Treasury or Federal Reserve to devise other methods of dealing with the effect on bank reserves, the money markets, and the distribution of bank deposits.

Changes in money markets

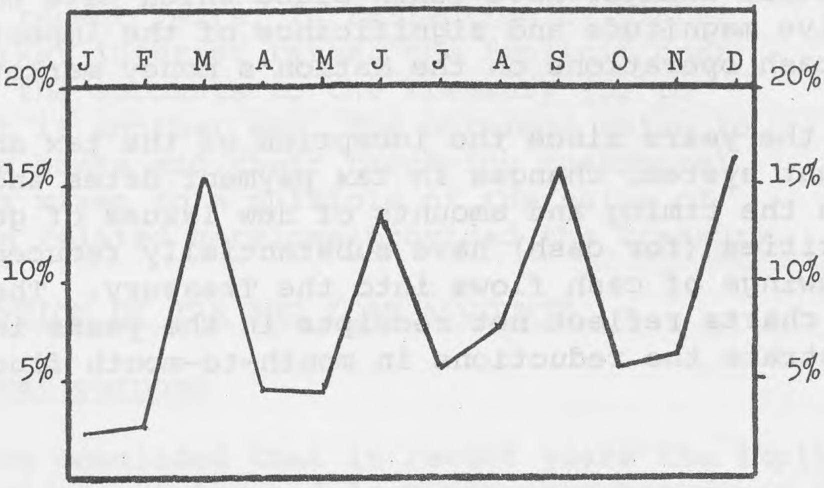
Since the inception of tax and loan accounts, a number of substantial changes have taken place which have changed the relative magnitude and significance of the impact of Treasury cash operations on the Nation's money markets.

Over the years since the inception of the tax and loan account system, changes in tax payment dates and changes in the timing and amounts of new issues of government securities (for cash) have substantially reduced the seasonal swings of cash flows into the Treasury. The following charts reflect net receipts in the years indicated and demonstrate the reductions in month-to-month fluctuations:

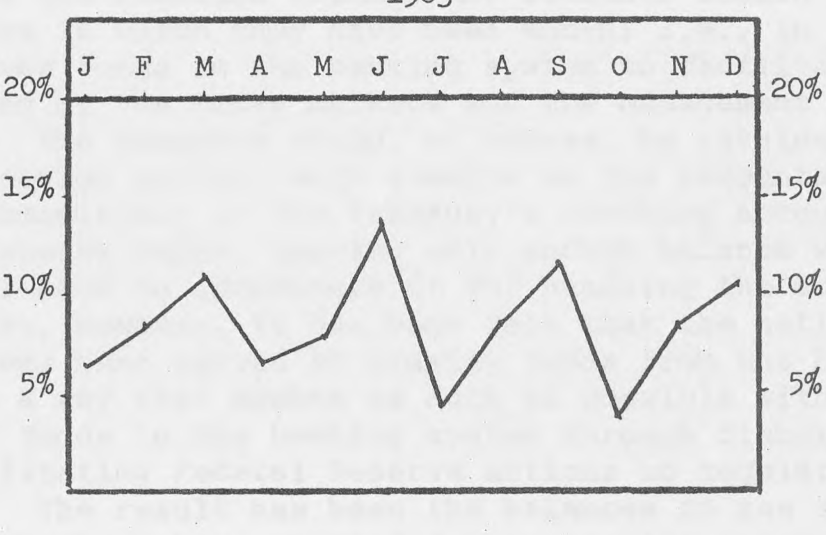
NET BUDGET RECEIPTS

Monthly Receipts as a %
of Total Calendar Year Receipts

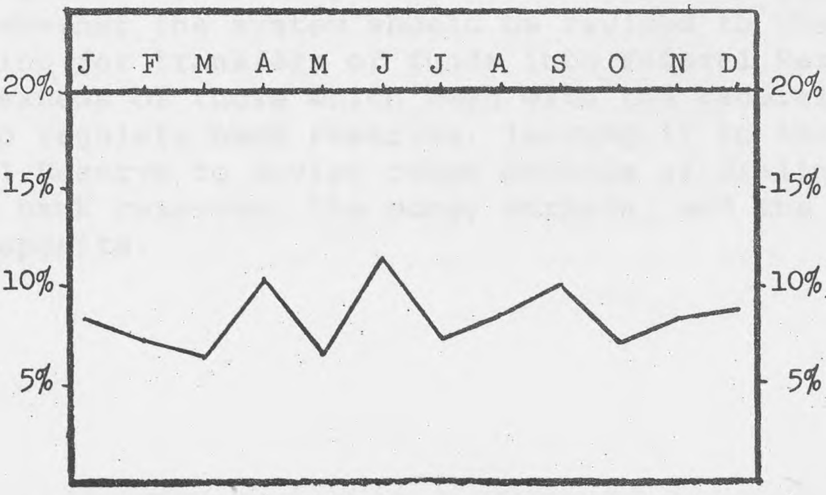
1943



1963



1973



Also, over the past ten years the size of Treasury tax and loan accounts has been relatively stable whereas other factors in the Nation's money markets have increased substantially. The result, of course, is that the relative significance of Treasury tax and loan accounts has decreased. The following table reflects a comparison of certain significant data as between 1963 (the base year for the last previous tax and loan study) and 1973 (in billions):

Monetary Statistics	1963	1973	% Increase
Average Member Bank Reserves	$ 20.7	$ 35.1	70%
Money Stock (MI)	153.5	270.4	76%
Federal Funds Sold	2.0 1/	27.7	1,285%
Total Assets of Commercial Banks ...	361.6	806.4	123%
Average Tax and Loan Balance	5.3	5.6	6%

1/ Federal Funds Sold first shown as separate line in June 1966 Federal Reserve Bulletin, which reflected $2,103,000,000 as of December 31, 1965.

In the earlier days of the tax and loan system, money markets were highly regionalized and the significance of leaving Treasury cash receipts in the bank of origin until the Treasury was ready to disburse such receipts was very significant. At the present time, the flow of funds among banks in all parts of the country, as for example via the Federal funds market, has substantially reduced the significance of leaving the funds where they originated. Were it not for the one problem described below, the retention of the tax and loan system as a collection device with the elimination of the balance in tax and loan accounts (with the banks simply remitting deposits daily to the Federal Reserve Banks) might be feasible without undue strain.

The problem that cannot at this time be adequately resolved without the continuation of the maintenance of tax and loan account balances is the impact of the large swings in the Treasury's operating cash over the course of a few days. These swings, which reach the magnitude of increases and decreases of over $3 billion in one and two-day periods, occur each month. The operating cash balance drops sharply because of heavy disbursements early in each month, and the balance rises as cash is replaced later in the month, with particularly large increases after the fifteenth of each tax payment month. The drops in balances result from those government benefit programs where payments are concentrated on single days, such as social security benefits, civil service retirement, and veterans benefits. For example, Treasury checks totaling approximately $5.5 billion for social security benefits are delivered to payees on the third of each month and the greater part are presented for payment against Treasury's operating balance at the Federal Reserve Banks in the following two days. The increases in balances occurring later in each month are the result of substantial tax payments. The following table reflects some of the larger day-to-day swings in the past few months.

Date	Changes in Treasury Operating Balance (In billions of dollars)
December 4, 1973	-1.4
December 5, 1973	-1.7
December 18, 1973	+2.4
December 19, 1973	+1.1
December 20, 1973	+1.1
January 7, 1974	-1.7
February 5, 1974	-1.9
March 5, 1974	-2.5

For somewhat longer periods of time, the fluctuations run to larger amounts as shown in the following table:

Date	Changes in Treasury Operating Balance (In billions of dollars)
December 17, 1973 to December 31, 1973	+7.5
January 3, 1974 to January 9, 1974	-4.2
January 15, 1974 to January 30, 1974	+5.0
March 15, 1974 to March 22, 1974	+4.6
April 1, 1974 to April 11, 1974	-6.0

The Federal Reserve Board has formally advised the Treasury that it believes that a procedure which called for transfer of the bulk of Treasury's deposits from commercial banks to Federal Reserve Banks would unduly complicate monetary policy.

Conclusion

After thorough reappraisal, we believe that, despite the changes that have taken place, the sharp swings in Treasury inflows and outflows still cannot be efficiently compensated for by other operations of the Treasury, the Federal Reserve and the commercial banks working together, and the principle of tax and loan accounts remains of major importance for the smooth functioning of the money markets. While the time may come when this is not true, we believe that for the present the use of tax and loan accounts for their basic purpose in smoothing out the effects of Treasury operations should be preserved. We conclude, therefore, that:

- The present system should be preserved in a form which leaves funds in the banking system until they are required for out payments.

VII. CAPTURING EARNINGS ON TAX AND LOAN ACCOUNTS

Since we concluded on the one hand that tax and loan accounts should be retained for money management purposes, and on the other hand that the implicit cost has become high relative to the services provided, it became necessary to consider ways of realizing a return on those balances. There are a number of ways in which this can be done. It developed in the course of our appraisal of the methods, however, that there are also a number of constraints which surround the conversion of tax and loan accounts to earning assets.

Of the wide range of potential methods for recouping earnings, three merit particular discussion. Other methods considered which might have achieved the result sought were discarded either because of complexity or lack of directness or because they would have required unacceptable changes in basic regulatory philosophy.

The most direct solution to the earning problem would be to require banks to pay interest directly on tax and loan balances. This was authorized by the original tax and loan legislation (31 U.S.C. 771), and at one time interest was in fact earned on these demand deposits. In 1933, however, the Congress found it desirable to prohibit the payment of interest on demand deposits (12 U.S.C. 371a and 12 U.S.C. 1828(g)) because of strong feelings that it enabled large banks to compete unfairly with small banks, led to a competitive ratcheting up of interest costs, and encouraged dangerously speculative loans. If a proposal to remove the prohibition for government deposits were to be placed before the Congress, it seems inevitable that the question would be reopened for all types of demand deposits. The Administration's position on this issue, as contained in the recommendations to the Congress for change in the U. S. financial system, was that the payment of interest on demand deposits should remain prohibited for all institutions and we do not propose the U. S. Government be placed in a privileged position in this respect.

A second way of realizing earnings would be to put a portion of tax and loan balances into time deposits. The constraint here is the Federal Reserve regulation which provides for earning interest on deposits only if the time is 30 days or more. The average life of a tax and loan deposit is only about 10 days. There are periods for which a limited part of the balance could be placed on deposit for 30 days. At best, however, the earnings would fall far short of the full earnings potential of the balances. If the Federal Reserve were to reduce the allowable time period for time deposits, the earnings potential of the tax and loan balances would be improved; but it would take a period as short as seven days if this approach were to be reasonably satisfactory.

A third way of getting earnings on tax and loan money would be to invest the unneeded balances on a day-to-day basis in short-term money market instruments, preferably with the banks holding the tax and loan balances. At the present time corporations, states, cities, and other entities can establish arrangements with banks for the day-to-day investment of their operating cash balances in excess of daily needs in various money market instruments such as Treasury obligations acquired under repurchase agreements. The Treasury does not have authority, however, to invest in this way. Also, the magnitude of Treasury balances as compared to any single corporation or political subdivision is such that forms of investment would be required that would not unduly disrupt money market rates. If the Treasury had authority to invest, actual investments could take whatever form would be most advantageous to the Treasury and at the same time least disruptive to the money markets. For instance, one way to accomplish both objectives would be for the Treasury to loan on a secured basis to each bank maintaining a tax and loan account. This could be done when the funds would be available for a given period of time -- say three to seven or more days -- in a fixed percentage relationship to the tax and loan balance with the bank. In effect, the Treasury would invest through a particular bank by withdrawing funds from the tax and loan account with that bank. The investment would thus be accomplished at rates which would parallel current market rates for similar investments, but by not actually entering the market the impact on market rates would be nearly eliminated.

On balance, given the limitation on time deposits to 30-day minimum maturities, it is believed that the direct investment technique outlined above should be chosen as a method to realize earnings on the balances. It is simple and straightforward, it is consistent with cash management practices in industry and in state and local governments, and it involves the least disruption of existing institutional arrangements. Our conclusion is, therefore, that:

- Congress should consider legislation authorizing the Treasury to invest in money market instruments for cash management purposes.

Pending congressional action on investment authority, it is the Treasury's intention to pursue vigorously the two avenues that are clearly available without legal or regulatory changes:

First, we will intensify our efforts to increase our balances at the Federal Reserve Banks, to the extent consistent with money-market stability; conversely, this will decrease our balances in tax and loan accounts. This necessarily means that the Federal Reserve System will have to compensate for greater swings in the Treasury balance at Federal Reserve Banks through existing techniques such as open market operations.

Second, we will experiment with placing funds in 30-day time deposits. Our preliminary conclusion is that converting tax and loan balances at particular banks into time deposits at the same banks would be administratively cumbersome and that, without extensive restructuring of the tax and loan system, relatively smaller portions of the balances of large banks than of small banks could be converted. An alternative that might be less cumbersome and more equitable would be for the Treasury to call specific amounts from tax and loan accounts and simultaneously offer to place the same aggregate amount into time deposits at tax and loan depositaries, accepting bids for such deposits in a competitive auction similar to a Treasury bill auction. At best, this too would be somewhat cumbersome and, it must be emphasized, only marginally productive in terms of earnings potential.

VIII. REIMBURSEMENT FOR SERVICES

The final item for consideration is the question of compensating banks for services they perform for the Government.

Looking at individual banks in the study, nearly all banks had an earnings value well in excess of the cost of services provided, but some far more than others, even when the average tax and loan balances were comparable in size. There was no consistency in the relationship between the earning value of tax and loan accounts and the scope or volume of services provided by banks for the Government, whatever services might be considered to be in the Government's behalf.

To ameliorate these differences, and to permit obtaining a fuller return on tax and loan balances without discouraging a large number of banks from participating in the system, certain services rendered by banks which we believe should be compensable, but which are not directly related to the existence of the tax and loan accounts, might be compensated for from appropriated funds. Allowance of offsets against the earnings value of tax and loan accounts is a possible alternative. However, the appropriation process appears more straightforward and equitable because

(1) institutions which do not maintain tax and loan accounts usually also perform those services and as a matter of equity should receive compensation if banks do, and (2) the activity level of those services is not related to the activity level or earnings value of tax and loan accounts.

For those services that are within the Treasury's area of responsibility, we believe that only those relating to savings bonds should be compensable through appropriation -- specifically issuance of savings bonds, redemption of savings bonds, and exchanges of 'E' for 'H' savings bonds. Services directly related to the tax and loan account and incidental services can appropriately be related to the residual value of the tax and loan accounts.

For services in other areas of responsibility, we cannot make final judgment, although applying the criteria stated in section IV would eliminate many of their face. In any event, we believe that these judgments should be made by the responsible agencies, with the knowledge that they would also have responsibility to seek the necessary financing.

The conclusion is, therefore, that:

- A system should be developed for compensating banks for the issuance and redemption of savings bonds by fees paid from appropriations.

QUESTIONNAIRE

ON TREASURY TAX AND LOAN ACCOUNTS

Name and location of bank ______________________________

____

For the general guidance of respondents:

Exclusions: *Nothing in this questionnaire pertains to special services performed by a bank (1) in the capacity of a depositary and financial agent of the Government, or (2) in an office located at a Federal Government installation. No data relating to these services are to be included in any of the responses.*

Additions: *Every bank should feel free to attach to this questionnaire any statement it wishes to make to present its views beyond the responses to the specific questions covered.*

FOR SUBMISSION TO:

Fiscal Assistant Secretary
Department of the Treasury
Washington, D. C. 20220

(Name and Location of Bank)

PART I

TREASURY TAX AND LOAN ACCOUNT BALANCES AND DEPOSITS; AND EXPENSES INCURRED IN SERVICING THE ACCOUNT, INCLUDING PROCESSING FEDERAL TAX DEPOSITS

A-Balances - calendar year 1972 /in thousands of dollars/

Month	Balance Per Books of Your Bank				Balance Per Federal Reserve Bank Books			
	End of Month	High	Low	Daily Average 1/	End of Month	High	Low	Daily Average 1/
January.....								
February.....								
March.......								
April.......								
May.........								
June........								
July........								
August......								
September								
October.....								
November....								
December....								
Totals.....	XXXXXX	XXXXXX	XXXXXX		XXXXXX	XXXXXX	XXXXXX	
Average daily balance for the year 2/	XXXXXX	XXXXXX	XXXXXX		XXXXXX	XXXXXX	XXXXXX	

1/ The average daily balance for each month should be computed by totaling the balances for all calendar days of the month and dividing by the number of calendar days in the month. For nonbusiness days, repeat the balance as of the preceding business day.

2/ For these purposes it will be sufficiently precise to divide the preceding total by 12.

Page 1 of 12

____
(Name and Location of Bank)

B - Deposits to Treasury tax and loan account during calendar year 1972, representing:

1. Sales of savings bonds .... $__________

2. Subscriptions for new issues of Government securities..................................... $__________

3. Federal tax deposits.......................... $__________

Total..................................... $__________

____
(Name and Location of Bank)

C - *Expenses in servicing Treasury tax and loan account and processing Federal tax deposits in calendar year 1972*

1. Servicing Treasury tax and loan account:

   a. Credits:
      (1) Number of entries .... ________ (Number)
      (2) Expense per entry 1/ .... $ ________
      (3) Total expense [(1) times (2)] .... $ ________

   b. Debits:
      (1) Number of entries .... ________ (Number)
      (2) Expense per entry 1/ .... $ ________
      (3) Total expense [(1) times (2)] .... $ ________

   c. Other expenses, if any 2/ .... $ ________

   d. Total expense, servicing account .... $ ________

2. Handling Federal tax deposits:

   a. Number of items processed .... ________ (Number)

   b. Per-item expense factor 1/ .... $ ________

   c. Total expense [for "a" times "b"] .... $ ________

   d. Other expenses, if any 2/ .... $ ________

   e. Total expense, Federal tax deposits .... $ ________

3. Total expense [1d plus 2e] .... $ ________

____

1/ Please attach to this page a separate explanation of the basis for computing these expenses. Please list each major processing step and the direct and indirect cost allocated to each step. For handling Federal tax deposits, if the per-item expense exceeded (1) your charges for each collection item handled under lock-box arrangement, or (2) your charges to customers for deposits consisting of a single check, please explain the basis for the difference.

2/ Please describe on a separate sheet attached to this page.

____

(Name and Location of Bank)

D. <u>Earning value of tax and loan account balance</u>

1. Is the value to your bank of the loanable balance in the tax and loan account (ledger balance on your books, less legal reserve) at least equal to the Federal funds rate (as published in the Federal Reserve Bulletin)?..... ________ (Yes or

2. If no, give your reasons ______________________________

3. What published rate (e.g., Treasury bill rate, prime bankers acceptance rate, etc.) do you feel more closely approximates the value of the TT&L account balance to your bank? If you do not feel that a published rate, per se, is a reasonable measure, please indicate what formula tied to a published rate is realistic ______________

PART II

OTHER SERVICES

Except as otherwise indicated, any data reported in Section A through F of this Part should be for the quarter ending March 31, 1973. Wherever data at the levels requested are not available directly from existing records, it will suffice for these purposes if the information for the entire quarter is estimated, using as a base the actual data for a current period of 30 days. Where figures furnished are other than actual data compiled for the entire quarter, please identify them as estimates and explain the estimating method used.

For some of the services covered in this Part (e.g., cashing Treasury checks, handling subscriptions for Government securities and handling matured Government securities) an assumption appears fundamental: If a bank does not provide such services to noncustomers, or charges a fee for noncustomers not charged for customers, it may reasonably be assumed that the bank is providing the service to customers on the basis of its over-all relationship with them. Consequently, any expense involved in providing the services to customers should not be compensable.

____
(Name and Location of Bank)

A - Handling Treasury Checks

1. Do you cash Treasury checks for noncustomers? .... ________ (Yes or No)

   a. If yes, do you charge a fee?.................. ________ (Yes or No)

   b. If you charge a fee, insert the amount or describe it here if it is variable ________ $________

2. Data on Treasury checks for the quarter:

   a. Cashed for customers.............................. ________ (Number) $________

   b. Cashed for noncustomers........................... ________ (Number) $________

   c. Included in deposits by business firms, other banks and individuals.............................. ________ (Number) $________

   d. Totals [a through c] .... ________ (Number) $________

3. Describe method used to distinguish between 2a, b and c. ________

4. What is your per-check expense for cashing Treasury checks for:

   a. Customers 1/...................................... $________

   b. Noncustomers 1/................................... $________

5. Data on Treasury reclamations from your bank in calendar year 1972 relating to forged, altered and other fraudulently negotiated checks:

   a. Number of checks and dollar value................ ________ (Number) $________

   b. What part of "a" has been or is likely to be recovered from the depositors or others, except from your own insurance coverage..................... ________ (Number) $________

1/ Please describe on a separate sheet (attached to this page) the factors considered and the method used in determining, separately, each of these per-check expenses.

____
(Name and Location of Bank)

B. *Handling subscriptions to U.S. securities (other than savings bonds) on original issue.*

1. Do you handle subscriptions to U.S. securities for:

a. Noncustomers.................................. ________ (Yes or No)

b. Customers..................................... ________ (Yes or No)

2. If yes, do you charge a fee for:

a. Noncustomers.................................. ________ (Yes or No)

b. Customers..................................... ________ (Yes or No)

3. If yes, how is the fee computed for:

a. Noncustomers ________________________
____

b. Customers ___________________________
____
____

4. Expense in handling subscriptions for the quarter 1/. $__________

5. Please furnish the following data for the quarter:

a. For noncustomers:

(1) Cash offerings:

(a) Number of tenders or subscriptions for the quarter .... ________ (Number)

(b) Total dollar value...................... $__________

(c) Total expense incurred 1/ .... $__________

(2) Exchange offerings:

(a) Number of subscriptions for the quarter: ________ (Number)

(b) Total dollar value...................... $__________

(c) Total expense incurred 1/ .... $__________

____

(Name and Location of Bank)

b. For customers:

(1) Cash offerings:

(a) Number of tenders or subscriptions for the quarter............................. ________ (Number)

(b) Total dollar value...................... $____________

(c) Total expense incurred 1/.............. $____________

(2) Exchange offerings:

(a) Number of subscriptions for the quarter............................. ________ (Number)

(b) Total dollar value..................... $____________

(c) Total expense incurred 1/ .... $____________

(3) What part of the expense on line (1)(c) and (2)(c), in servicing customers, has been recovered from the customers in one way or another? ______________________________

____

____

1/ Describe in detail, on a separate sheet attached to this page, how any expenses shown in this section were computed.

____
(Name of Bank and Location

C. Handling matured Government securities.

1. Do you handle matured Government securities for:

a. Noncustomers.............................. ________ (Yes or No)

b. Customers................................. ________ (Yes or No)

2. If yes, do you charge a fee for:

a. Noncustomers.............................. ________ (Yes or No)

b. Customers................................. ________ (Yes or No)

3. If yes, how is the fee computed for:

a. Noncustomers____________________

b. Customers____________________

4. Expense in handling matured securities for the quarter 1/ .... $________

5. Please furnish the following data for the quarter:

a. For noncustomers:

(1) Number of transactions for the quarter..... ________ (Number)

(2) Total dollar value........................ $________
(3) Total expense incurred 1/.................. $________

b. For customers:

(1) Number of transactions for the quarter..... ________ (Number)

(2) Total dollar value........................ $________
(3) Total expense incurred 1/.................. $________

c. What part of the expense on line b(3), in servicing customers, has been recovered from the customers, in one way or another?____________________

1/ Describe in detail, on a separate sheet attached to this page, how any expenses in this section were computed.

____
(Name and Location of Bank)

D. Issuing U.S. savings bonds.

1. Payroll savings plans of customers:

a. Number of savings bonds issued in the quarter ... ________ (Number)

b. Dollar value [purchase price] .... $________

c. Expense, per item 1/ .... $________

d. Total expense [a times c] .... $________

e. To what extent is the expense [item d] recovered from the customer? ________________________________
____
____

f. Do you also provide payroll accounting service for customers on whose behalf you issue savings bonds? Explain if necessary. ________________ ________ (Yes or No)
____
____

2. Bond-a-month plan:

a. Number of savings bonds issued in the quarter by periodic charges to accounts of individual depositors .... ________ (Number)

b. Dollar value [purchase price] .... $________

c. Expense, per item 1/ .... $________

d. Total expense (a times c) .... $________

3. Over-the-counter sales:

a. Number of savings bonds issued in the quarter ..... ________ (Number)

b. Dollar value [purchase price] .... $________

c. Expense, per item 1/ .... $________

d. Total expense [a times c] .... $________

4. Please indicate, for each of the three categories above, the number of business days (on the average) that elapse from the time you receive payment for the savings bonds to the time you credit the payment to the Treasury tax and loan account:

a. Item 1 .... ________

b. Item 2 .... ________

c. Item 3 .... ________

1/ Describe in detail, on a separate sheet attached to this page, how any expenses shown in this section were computed.

____
(Name and Location of Bank)

E. *Paying (redeeming) U. S. savings bonds.*

1. *Number of transactions for the quarter 1/ ....* ________ *(Number)*

2. *Number of bonds paid: 1/*

   a. *For customers..............................* ________ *(Number)*

   b. *For noncustomers...........................* ________ *(Number)*

   c. *Total [a plus b] ....* ________ *(Number)*

3. *Total reimbursement for line 2c [paying agent fee]* $________

4. *Do you feel the present fee schedule is adequate?...* ________ *(Yes or No)*

5. *If your answer to item 4 is "No", please indicate what you feel the fee schedule should be and give your reasons.* ________________________________
____
____
____
____

1/ For example, one individual redeeming 3 bonds would be counted as one transaction on line 1 and three bonds on line 2.

____
(Name and Location of Bank)

F. Recordkeeping, reporting and other services that are mandatory under Federal statutes

There is a basic issue of principle whether a bank's expenses in doing things specifically required by law should be compensated for by the earning value of a Treasury tax and loan account. In connection with this issue, two questions are relevant:

1. Does the statute requiring the recordkeeping or reporting provide for reimbursement in any form? If not, what is the justification for providing it administratively through Treasury tax and loan accounts? If a statute does provide for compensation, what would be the justification for supplementing it indirectly through the value of Treasury tax and loan accounts?

2. Are other business firms (in particular other types of financial institutions), which do not have the benefit of Treasury tax and loan accounts, similarly required to comply with the statute?

We welcome any views you may wish to express on this issue of principle. Please make your statement on a separate sheet, attached to this page.

If there are any particular services in this category that you feel are properly compensable through your tax and loan account, please list them separately, and indicate for each the magnitude of the service and your rationale. For any listed service, please indicate the expenses incurred.

SELECTION OF BANKS FOR THE SURVEY

Of the more than 13,000 banks with tax and loan accounts, we decided to send questionnaires to a group of 600, which we felt was small enough to be manageable for our survey but large enough to provide a valid sample.

In determining which banks to use, we first selected the 300 banks with the largest average balances. Each of these average balances was more than $1.5 million, and in the aggregate they represented almost three-fourths of the total average balances. At the other extreme we excluded all banks with average balances that were too small to have any material bearing on the study. An average balance of only $38,000 was a logical breaking point for this purpose, and that criterion resulted in complete exclusion of 5,758 banks, which had less than one percent of the aggregate balances.

To select the other 300 banks from among the remaining 6,953 banks, we first divided these banks into 16 average-balance categories. The number of banks selected from each category gave effect to the total number of banks and the total average balances in each category, with equal weight to both factors.

To ensure the selection of banks from throughout the country, the United States was divided into four virtually equal regions based on the number of banks in each State. The number of banks selected from each region for each category was based solely on the number of banks. This was also the factor used to determine from which States within a region the banks were selected.

Each of the average-balance categories was then subdivided into as many subcategories as there were banks to be selected. At this point the name of a State was randomly selected, and the bank in that State which came nearest to the midpoint of that subcategory was selected for the study.

In the exhibits which follow, the results of our re-study are shown in categories consistent with the three broad classifications of banks which have been in use over the years. These classifications and the groupings for this study are explained in the following paragraphs.

In order to facilitate the scheduling of withdrawals from tax and loan accounts, banks maintaining such accounts have long been administratively divided into three groups (A, B or C) based on the size of their accounts; the dollar volume of credits in an account during one year determines the bank's classification in the following year. When we began selecting banks to participate in the re-study, there were 13,011 banks maintaining tax and loan accounts, classified as follows:

Group A	11,180	(the smallest)
Group B	1,557	(the intermediate)
Group C	274	(the largest)

Questionnaires were sent to all of the 274 C banks and the 26 B banks with the largest tax and loan accounts, thereby aiming at total coverage for the 300 largest banks in the system. Of the remaining banks, 108 B banks and 192 A banks received the questionnaire by random selection as described above.

This mix of 600 banks, representing a workable questionnaire volume of less than 5 percent of the total number of banks in the system, met the objective of coverage for the greatest portion of the dollar flows in the system as well as a cross section of that portion of the coverage which related to the smaller dollar flows.

The following table summarizes the total number of banks in each group, the number which received the questionnaire, the number which did or did not respond, and the number which were not furnished a questionnaire.

	Total # of Banks	Received Questionnaires Total	Responded	Did not Respond	Did Not Receive Questionnaires
Group C	274	274	267	7	0
Group B:					
Largest in Group B	26	26	24	2	0
All Others in Group B	1,531	108	103	5	1,423
Total, Group B	1,557	134	127	7	1,423
Group A:					
Largest within Group A (for sampling)	5,422	192	163	29	5,230
Smallest (excluded)	5,758	0	0	0	5,758
Total, Group A	11,180	192	163	29	10,988
Grand Total	13,011	600	557	43	12,411

SERVICING TAX AND LOAN ACCOUNTS AND PROCESSING FEDERAL TAX DEPOSITS

The reports submitted by banks showed the costs incurred in servicing tax and loan accounts and in processing Federal Tax Deposit forms (FTDs) during the 1972 calendar year. In servicing the tax and loan account itself, the costs related primarily to the handling of debit and credit entries; banks also reported other miscellaneous costs such as periodic audit and reconcilement of the account. Of the reporting banks, 453 banks furnished information regarding the costs for servicing the account. These costs totaled $819,246. By extrapolating the cost data submitted by the 453 reporting banks to cover the 12,558 remaining banks which did not participate in the study, or which did not include the necessary data in their returned questionnaires, it was determined that the estimated costs of the 12,558 nonreporting banks would be $2,681,442. The total estimated cost of the 13,011 banks for servicing the account would therefore be $3,500,688.

During the 1972 calendar year, 34,643,786 FTDs were processed by depositaries. The 530 reporting banks which furnished the number of FTDs processed handled 16,456,515 or 47.5% of the total number. Of these 530 banks, 449 also furnished information regarding the costs for processing FTDs. The following table is based upon an analysis of such costs:

Class	Number of Banks	Number of FTDs Processed	Universal Weighted Average Cost Per FTD 1/	Total Cost for Processing FTDs
A	109	171,838	$ .4217	$ 72,464
B	81	570,373	.4217	240,526
C	259	14,637,496	.4217	6,172,632
Total	449	15,379,707	$ .4217	$ 6,485,622

The 12,562 banks which did not participate in the study, or which did not include the pertinent data in their returned questionnaires, handled the remaining 19,264,079 FTDs, which, at a weighted average cost of $.4217 per FTD, would establish their total estimated cost as $8,124,763. The total estimated cost to all 13,011 banks for processing FTDs would therefore be $14,610,385.

In their responses to the questionnaire, some reporting banks included certain items such as audit, reconciliation, and postage under "Other Expenses" in servicing the tax and loan accounts. Other banks, however, included these items under "Other Expenses" in processing FTDs. The simplest and most equitable means of measuring these expenses reported by banks is to express the total expense for servicing the account and for handling FTDs in terms of cost per FTD processed. As illustrated in the above table, the weighted average cost for processing FTDs was $.4217 per FTD. Following this same approach, the estimated cost of servicing the tax and loan account itself would be equivalent to $.1011 per FTD. Therefore, the combined weighted average cost for processing FTDs and servicing the account would be $.5228 per FTD. The combined cost for the 449 banks which furnished cost figures is expressed in terms of "cost per FTD processed" in the following table:

Class	Number of Banks	Number of FTDs Processed	Combined Universal Weighted Average Cost for Servicing the Account and Processing FTDs (Per FTD) 1/	Total Cost for Servicing the Account and Processing FTDs
A	109	171,838	$ .5228	$ 89,837
B	81	570,373	.5228	298,191
C	259	14,637,496	.5228	7,652,483
Total	449	15,379,707	$ .5228	$ 8,040,511

On this basis, the estimated costs for the 12,562 banks which did not participate in the study, or which did not include the pertinent data in their returned questionnaires, would be $10,070,562, and the total estimated cost for all 13,011 banks for processing FTDs and servicing the account would be $18,111,073.

1/ The weighted average cost was determined by first extrapolating the activity and cost data submitted by reporting banks to cover the nonreporting banks, by categories, and then computing a universal weighted average cost for all 13,011 banks which maintain tax and loan accounts and process FTDs.

U.S. SECURITIES (OTHER THAN SAVINGS BONDS)
HANDLING SUBSCRIPTIONS ON ORIGINAL ISSUE AND HANDLING MATURED SECURITIES

Number of Banks Surveyed 600
Number of Banks which Submitted Responses to Questionnaire 555

I. Responses to the Section on Handling Subscriptions on Original Issue.

Noncustomers	Number	%
(1) Banks that do not handle subscriptions for noncustomers	224	40.4%
(2) Banks that handle subscriptions for noncustomers for a fee	208	37.5%
(3) Banks that handle subscriptions for noncustomers without a fee	108 1/	19.4%
(4) Banks that did not complete this section	15	2.7%
Totals	555	100.0%

Customers	Number	%
(1) Banks that do not handle subscriptions for customers	54	9.7%
(2) Banks that handle subscriptions for customers for a fee	276	49.7%
(3) Banks that handle subscriptions for' customers without a fee	188	33.9%
(4) Banks that did not complete this section	37	6.7%
Totals	555	100.0%

1/ However, of these 108 banks, only 13 reported any actual subscriptions handled.

II. Responses to the Section on Handling Matured Securities.

Noncustomers	Number	%
(1) Banks that do not handle matured securities for noncustomers	209	37.6%
(2) Banks that handle matured securities for noncustomers for a fee	110	19.8%
(3) Banks that handle matured securities for noncustomers without a fee	219 2/	39.5%
(4) Banks that did not complete this section	17	3.1%
Totals	555	100.0%

Customers	Number	%
(1) Banks that do not handle matured securities for customers	33	6.0%
(2) Banks that handle matured securities for customers for a fee	124	22.3%
(3) Banks that handle matured securities for customers without a fee	357	64.3%
(4) Banks that did not complete this section	41	7.4%
Totals	555	100.0%

2/ However, of these 219 banks, only 57 reported handling any matured securities.

EXHIBIT 4

EXHIBIT 5

REDEMPTION OF U.S. SAVINGS BONDS
DURING CALENDAR YEAR 1972

During the calendar year 1972, of the 107,944,004 Series E Savings Bonds and Savings Notes redeemed and charged to the Bureau of Public Debt, 105,141,168 were redeemed by paying agents for a fee.

Each paying agent receives reimbursement quarterly for bonds redeemed at the rate of $.15 each for the first 1,000 bonds paid and $.10 each for all over the first 1,000. During the calendar year 1972 all paying agents received reimbursement in the amount of $13,696,352 for paying 105,141,168 savings bonds, or an average of $.13026 per bond.

The following table reflects the number of Series E Savings Bonds and Savings Notes redeemed by banks as compared to all other paying agents 1/:

Class of Agent	Number of Bonds Paid	Percent of Number Paid	Number of Agents
Banks	96,729,875	92%	14,706
Others	8,411,293	8%	2,256
Total	105,141,168	100%	16,962

Of the reporting banks, 445 furnished information regarding the number of savings bonds redeemed and indicated what they felt the appropriate fee should be for the redemption of savings bonds. The following table is based upon an analysis of these per-item fees.

Class	Number of Banks	Number of Savings Bonds Redeemed	Universal Weighted Average Fee Per Savings Bond 2/	Total Cost
A	125	669,580	$ .2941	$ 196,923
B	70	1,314,816	.2941	386,687
C	250	35,201,368	.2941	10,352,722
Total	445	37,185,764	$ .2941	$ 10,936,332

After deducting an estimated 2,272,995 savings bonds redeemed by banks which did not maintain tax and loan accounts (principally mutual savings banks), the 12,566 tax and loan depositaries which did not participate in the study, or which did not include the pertinent data in their returned questionnaires, redeemed the remaining 57,271,116 (96,729,875 - [37,185,764 + 2,272,995]) savings bonds redeemed by banks, which, at a weighted average cost of $.2941 per bond, would establish their total estimated cost as $16,841,889. Thus, the total estimated cost to the 13,011 tax and loan depositaries, based upon the suggested fee schedule provided by the reporting banks, would be $27,778,221.

1/ While the total number of bonds paid is on an actual basis, the breakdown between classes of paying agents is an estimate based on data developed in a previous year.

2/ The weighted average fee used above was determined by first extrapolating the activity and cost data submitted by reporting banks to cover the nonreporting banks, by categories, and then computing a universal weighted average cost for all 13,011 banks which maintain tax and loan accounts.

ISSUANCE OF U.S. SAVINGS BONDS
DURING CALENDAR YEAR 1972

Reports provided by the Federal Reserve Banks for calendar year 1972 show that banks accounted for approximately 53% of the savings bonds issued during that year. The following table reflects the number of savings bonds issued by banks as compared to all other issuing agents:

Class of Agent	Amount of Bonds	Number of Bonds	Percent of Number Issued	Number of Agents
Banks	$ 3,089,373,865	69,100,100	53%	14,637
Others	2,741,870,604	61,318,719	47%	3,958
Total	$ 5,831,244,469	130,418,819	100%	18,595

Of the banks which responded to the questionnaire in the current study, 434 furnished information concerning the distribution of savings bonds issues among payroll-savings, bond-a-month, and over-the-counter sales; that information is summarized in the attached table. The table also reflects the results of an analysis of the costs reported by banks for issuing the savings bonds by the three methods.

From the table, it can be seen that the 434 reporting banks issued 25,124,889 of the 69,100,100 savings bonds issued by banks, at a cost of $10,491,499. After deducting an estimated 1,714,974 savings bonds issued by banks which did not maintain tax and loan accounts (principally mutual savings banks), the 12,577 tax and loan depositaries which did not participate in the study, or which did not include the pertinent data in their returned questionnaires, issued the remaining 42,260,237 (69,100,100 - [25,124,889 + 1,714,974]) savings bonds, at an estimated cost of $20,201,126. Thus, the total estimated cost to the 13,011 banks for issuing 67,385,126 savings bonds would be $30,692,625.

VARIOUS CATEGORIES OF ISSUANCES OF
SAVINGS BONDS AND RELATED COSTS

Category of Savings Bond Issue	Class of Bank	Number of Banks	Number of Bonds	Universal Weighted Average Cost Per Bond 1/	Total Cost
1. Payroll Savings	A	146	116,380	$ .32	$ 37,242
	B	97	556,988	.32	178,236
	C	191	17,591,375	.32	5,629,240
Subtotal		434	18,264,743	$ .32	$ 5,844,718
2. Bond-a-Month	A	146	11,694	$ .56	$ 6,549
	B	97	64,308	.56	36,012
	C	191	591,076	.56	331,003
Subtotal		434	667,078	$ .56	$ 373,564
3. Over-the-Counter	A	146	150,348	$ .69	$ 103,740
	B	97	415,925	.69	286,988
	C	191	5,626,795	.69	3,882,489
Subtotal		434	6,193,068	$ .69	$ 4,273,217
4. Total All Issues		434	25,124,889		$ 10,491,499

1/ The weighted average cost was determined by first extrapolating the activity and cost data submitted by reporting banks to cover the nonreporting banks, by categories, and then computing a universal weighted average cost for all 13,011 banks which maintain tax and loan accounts.

HANDLING TREASURY CHECKS

In requesting data on the services listed in Part II of the questionnaire, Treasury realized that some of the data might not be available from existing records at the levels requested. In these circumstances, banks were requested to estimate, using as a base the actual data for a current period of 30 days and explaining the estimating method used.

It was obvious from the responses that many of the estimated figures did not meet the test of reasonableness. This was particularly true with respect to the responses received in connection with the handling of Treasury checks. We nevertheless used all reported figures on handling Treasury checks to compile the following tables, since we had no objective means available to verify the accuracy of the data.

Of the banks responding to the questionnaire, only 304 provided the requested breakdown between Treasury checks cashed for customers, cashed for noncustomers, and deposited. For those banks, the table below shows the composite result of this breakdown, indicating that a very small percentage of payees of Treasury checks cash such checks at banks where they do not have an account.

	Number	Percentage
Cashed for noncustomers	2,893,138	3.6%
Cashed for customers	13,017,916	16.1%
Deposited	65,066,578	80.3%
Total	80,977,632	100.0%

In addition to the data requested as to the volume of checks handled, banks were asked to provide data on their per-check expense for cashing Treasury checks for customers and for noncustomers. The 277 banks responding to this request reported the following data:

	Number	Per-Check Expense
Cashed for noncustomers	2,843,776	$ .278
Cashed for customers	12,829,601	.205

Banks were also requested to provide data on the amounts reclaimed from them by the Treasury during 1972 for forged, altered, and other fraudulently negotiated Treasury checks, and the amounts subsequently recovered by banks from depositors or others (except from their own insurance coverage). The 226 banks responding to this request reported the following data:

	Reclaimed by Treasury	Recovered by Bank from Depositors or Others	Percentage
Number of Checks	32,938	27,730	84.2%
Dollar Amount	$ 5,074,600	$ 4,289,700	84.5%
Ave. Amt. of Check	$ 154	$ 155	

In 1972 the Treasury reclaimed approximately $11,150,000 for paid Treasury checks and refused payment on an additional $5,000,000. Thus, of the total $15,150,000 relating to forged, altered, and other fraudulently negotiated Treasury checks during 1972, it seems reasonable to conclude that banks suffered estimated losses of approximately 15% of the dollar amount or an estimated $2,272,500.

EXHIBIT 8

VOLUNTARY SERVICES

Service	Total Number of Banks Referring to the Service
1. Supplying income tax forms to the public	84
2. Handling commemorative coins	41
3. Participating in the food stamp program	114
4. Selling Federal Transfer stamps	14
5. Exchanging 'E' Bonds for 'H' Bonds	77

EXHIBIT 9

MANDATORY SERVICES

Service	Total Number of Banks Referring to the Service
1. Reporting interest and dividend payments to IRS (Form 1099)	136
2. Handling IRS tax liens and subpoenas	114
3. Keeping financial records and reporting currency and foreign transactions	67
4. Keeping records and making reports involving Treasury's foreign assets control operation	27
5. Complying with provisions of the Interest Equalization Tax Act	17
6. Microfilming checks under the Bank Secrecy Act	15
7. Maintaining list of "Designated Nationals"	11
8. Obtaining taxpayers' ID numbers or Social Security numbers on new accounts	8

EARNING VALUE OF THE TAX AND LOAN ACCOUNT BALANCE

In response to the question "Is the value to your bank of the loanable balance in the tax and loan account (ledger balance on your books, less legal reserve) at least equal to the Federal funds rate (as published in the Federal Reserve Bulletin)?", 279 banks, or 50.3% of the respondents, indicated "yes."

The banks were then asked what published rate most closely approximates the value of the tax and loan account balance to the bank. A number of banks took this opportunity to qualify their "yes" response to the first question. The following summation of the responses to this question shows that more than 60% of the banks felt that some rate other than the Federal funds rate was the best measure of the value of the balance to their bank.

Rate Cited	Number of Banks Citing Rate	
A. Federal funds rate		
A-1 Federal funds rate	212	
A-2 Federal funds rate reduced by either a specified number of basis points or a certain percentage of the Federal funds rate	16	
A-3 An average of the Federal funds rate and one or more other money market rates	10	
Total number of banks which cited the Federal funds rates or some variation thereof		238
B. Treasury bill rate		
B-1 Treasury bill rate (unspecified)	88	
B-2 Treasury bill rate reduced by either a specified number of basis points or a certain percentage of the Treasury bill rate	5	
B-3 90-day Treasury bill rate	54	
B-3a 90-day Treasury bill rate reduced by either a specified number of basis points or a certain percentage of the 90-day Treasury bill rate	4	
B-4 30-day Treasury bill rate	23	
B-5 15- to 30-day Treasury bill rate	2	
B-6 Short term (unspecified) Treasury bill rate	4	
B-6a 14-day Treasury bill rate	2	
B-6b 7- to 10-day Treasury bill rate	3	
B-7 An average of the Treasury bill rate and one or more other money market rates (other than the Federal funds rate)	4	
Total number of banks which cited the Treasury bill rate or some variation thereof		189

C.	Prime rate	12
C-1	Prime rate reduced by either a specified number of basis points or a certain percentage of the prime rate	5
D.	Federal Reserve Bank rediscount rate	14
E.	Bankers acceptance rate	5
F.	Passbook savings rate	6
G.	No acceptable published rate	21
H.	No comment (included in this category were banks which did not answer any of the questions on this topic and those which responded "no" to the first question but did not suggest an alternate rate)	31
I.	Others (no rate included in this category was cited by more than four banks)	34
	TOTAL	555

SUMMARY OF ESTIMATED INCOME AND EXPENSE FOR THE 600 T&L DEPOSITARIES SURVEYED*

	# of Banks	Balance per Bank's Books	Less: Reserves of	Net Balance	Earnings on Net Balance @ 5.5%	Less TT&L and FTD Costs	Earnings after TT&L and FTD Costs	Less Costs for Handling Savings Bonds: Issuance	Redemption	Total	Net Earnings
Largest Banks											
All C Banks	274	$ 3,588,318	$ 549,013	$ 3,039,305	$ 167,162	$ 9,345	$ 157,817	$ 13,495	$ 9,071	$ 22,566	$ 135,251
Largest B Banks	26	75,601	9,677	65,924	3,626	157	3,469	353	187	540	2,929
Subtotal	300	3,663,919	558,690	3,105,229	170,788	9,502	161,286	13,848	9,258	23,106	138,180
All Other Banks											
All Other B Banks Selected	108	120,626	14,958	105,668	5,812	225	5,587	671	318	989	4,598
Selected A Banks	192	42,780	4,749	38,031	2,092	159	1,933	185	54	239	1,694
Total	600	$ 3,827,325	$ 578,397	$ 3,248,928	$ 178,692	$ 9,886	$ 168,806	$ 14,704	$ 9,630	$ 24,334	$ 144,472

SUMMARY OF ESTIMATED INCOME AND EXPENSE FOR ALL T&L DEPOSITARIES*

	# of Banks	Balance per Bank's Books	Less: Reserves of	Net Balance	Earnings on Net Balance @ 5.5%	Less TT&L and FTD Costs	Earnings after TT&L and FTD Costs	Less Costs for Handling Savings Bonds: Issuance	Redemption	Total	Net Earnings
Largest Banks											
All C Banks	274	$ 3,588,318	$ 549,013	$ 3,039,305	$ 167,162	$ 9,345	$ 157,817	$ 13,495	$ 9,071	$ 22,566	$ 135,251
Largest B Banks	26	75,601	9,677	65,924	3,626	157	3,469	353	187	540	2,929
Subtotal	300	3,663,919	558,690	3,105,229	170,788	9,502	161,286	13,848	9,258	23,106	138,180
All Other Banks											
All Other B Banks	1,531	1,709,968	212,036	1,497,932	82,386	2,987	79,399	8,417	4,229	12,646	66,753
Largest A Banks	5,422	1,208,087	134,098	1,073,989	59,069	4,470	54,599	5,378	1,522	6,900	47,699
Smallest A Banks	5,758	263,180	29,213	233,967	12,868	1,152	11,716	3,050	461	3,511	8,205
Total	13,011	$ 6,845,154	$ 934,037	$ 5,911,117	$ 325,111	$ 18,111	$ 307,000	$ 30,693	$ 15,470	$ 46,163	$ 260,837

* Dollar amounts in rounded thousands.

EXHIBIT 11

RATE OF RETURN ON TAX AND LOAN BALANCES, SELECTED BANKS

The following comparisons of pairs of C banks illustrate the disproportionate relationships which now exist between the value of services provided by banks having virtually identical tax and loan account balances.

Bank Identification	Average Daily T&L Balance	Estimated Total Expense 1/	Estimated Net Rate of Return on Balance 2/
C-137	$ 98,533,000	$ 746,145	3.75%
C-116	105,344,000	43,029	4.47%
C-121	53,837,000	463,087	3.64%
C-117	51,021,000	74,259	4.36%
C-147	43,082,000	1,232,630	1.65%
C-95	47,335,000	98,431	4.30%
C-260	28,784,000	265,822	3.59%
C-25	27,186,000	73,198	4.49%
C-71	23,895,000	265,125	3.40%
C-197	23,215,000	38,120	4.35%
C-67	14,729,000	264,641	2.71%
C-187	14,520,000	33,986	4.52%
C-159	13,914,000	198,726	3.08%
C-104	13,714,000	32,467	4.27%
C-77	12,210,000	187,533	2.97%
C-49	12,318,000	31,241	4.50%
C-156	5,009,000	108,837	2.34%
C-113	5,019,000	16,112	4.44%
C-111	4,688,000	354,468	(3.05%) 3/
C-138	4,779,000	23,069	4.27%

1/ This figure reflects expenses incurred in servicing the account, handling Federal tax deposits, and issuing and redeeming U.S. Savings Bonds by using weighted average item-costs for all banks maintaining tax and loan accounts.

2/ Computed by dividing net earnings by average balance. To determine the gross earnings on balance, the average rate on new issues of 90-day Treasury bills during the five-year period ended December 31, 1972, was used. That rate was then adjusted to give consideration to the bank's reserve requirement and the FDIC assessment.

3/ In this instance, expense exceeded income primarily due to the large number of U.S. Savings Bonds issued by the bank.

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

3

FOR IMMEDIATE RELEASE July 1, 1974

Dr. John T. Dunlop Named as Treasury Consultant

Secretary of the Treasury William E. Simon today appointed Dr. John T. Dunlop as a special consultant effective today.

Dr. Dunlop has been Director of the Cost of Living Council, which goes out of existence July 1 as a separate agency. At that time Treasury will direct the organization's winding-down operations for the next few months.

"Dr. Dunlop will consult with the Department on a broad range of economic policies. His special expertise in the wage-price area will be unusually important to the Department, Secretary Simon said."

In addition to his Treasury responsibilities, Dr. Dunlop will also be an advisor to Kenneth Rush on economic matters.

Because Dr. Dunlop is a consultant to the government of Saudi Arabia, his Treasury contract will prohibit him from becoming involved in Treasury's relationships with Saudi Arabia.

Dr. Dunlop, formerly Dean of the Sciences and Arts Faculty at Harvard, joined the Nixon administration in 1971 as chairman of the Construction Industry Stabilization Agency. He is returning to Harvard as Lamont Professor. He had directed the Cost of Living Council since January 1973.

oOo

WS-48

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

FOR A.M. RELEASE July 1, 1974

MEMO TO CORRESPONDENTS:

Beginning today, all Cost of Living Council inquiries pertaining to regulations, compliance, and pending disposition of cases will be handled by the Director of the new Office of Economic Stabilization, who has been designated by Secretary of the Treasury, William E. Simon, and will report to Assistant Secretary for Administration Warren F. Brecht. The Director of the Office of Economic Stabilization Andrew T.H. Munroe, and his deputy, Henry H. Perritt Jr., will remain at the COLC former offices, 2000 M Street, NW. Their telephone numbers are 254-3275 and 254-8610.

Other inquiries concerning the new Office of Economic Stabilization at the Treasury Department should be directed to Helene Melzer, Public Affairs Officer, at 964-5252 or 964-2108.

NOTE:

The Office of Economic Stablization, in a related action, has filed regulations with the Federal Register which adopt the Cost of Living Council's regulations as the regulations of the new Office.

WS-49

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

5

FOR RELEASE 6:30 P.M.

July 1, 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 July 5, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing October 3, 1974		26-week bills maturing January 2, 1975	
	Price	Equivalent Annual Rate	Price	Equivalent Annual Rate
High	98.064 a/	7.744%	95.987 b/	7.982%
Low	98.038	7.848%	95.927	8.101%
Average	98.048	7.808% 1/	95.950	8.055% 1/

a/ Excepting 1 tender of $10,000
b/ Excepting 3 tenders totaling $575,000

Tenders at the low price for the 13-week bills were allotted 59%.
Tenders at the low price for the 26-week bills were allotted 73%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 42,220,000	$ 30,955,000	$ 27,200,000	$ 16,830,000
New York	3,420,905,000	2,241,380,000	2,615,905,000	1,612,220,000
Philadelphia	36,110,000	35,445,000	12,965,000	12,965,000
Cleveland	69,120,000	42,490,000	41,340,000	26,340,000
Richmond	46,980,000	28,480,000	32,385,000	20,385,000
Atlanta	33,390,000	28,755,000	27,085,000	25,985,000
Chicago	207,920,000	59,705,000	192,455,000	76,255,000
St. Louis	41,300,000	28,480,000	33,740,000	20,740,000
Minneapolis	13,185,000	4,185,000	9,925,000	3,925,000
Kansas City	34,125,000	26,730,000	38,295,000	31,085,000
Dallas	29,195,000	18,570,000	32,515,000	20,275,000
San Francisco	140,900,000	55,560,000	102,205,000	33,105,000
TOTALS	$4,115,350,000	$2,600,735,000 c/	$3,166,015,000	$1,900,110,000 d/

c/ Includes $ 412,375,000 noncompetitive tenders accepted at average price.
d/ Includes $ 279,160,000 noncompetitive tenders accepted at average price.
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 8.07 % for the 13-week bills, and 8.51% for the 26-week bills.

6

FOR IMMEDIATE RELEASE July 2, 1974

DAILY TREASURY STATEMENT

The Daily Treasury Statement for June 30, 1974, will be released on July 5, 1974, one business day later than usual, to facilitate transition to a new format starting July 1. The Daily Treasury Statement for July 1 will also be released on July 5, in both the present format and the new format, along with a description of the changes that are being made.

oOo

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

FOR RELEASE AFTER 11 A.M.
WEDNESDAY, JULY 3, 1974

July 3, 1974

TREASURY SECRETARY SIMON AND U.S. TREASURER NEFF
SEE FIRST DOLLAR BILLS WITH THEIR SIGNATURES

Treasury Secretary William E. Simon and the Treasurer of the United States Francine I. Neff witnessed the first dollar bills with their signatures roll off the press today at the Bureau of Engraving and Printing.

The new Simon-Neff notes, to be released by the 12 Federal Reserve Banks as current supplies are depleted, will be designated Series 1974, replacing the present Series 1969D notes which bear the Shultz-Banuelos signatures, first printed July 28, 1972.

The new Series 1974 for the $1 denomination will be released first, with serial numbers reverting back to number one, and because of the major Series-year change, the serial numbers for each of the 12 Federal Reserve Banks will revert to 00 000 001A preceded by the prefix letter associated with each of the banks.

The bills seen by Secretary Simon and Mrs. Neff today, were to start with E00000001A (eight digits, the letter E identifying the Federal Reserve Bank of Richmond, the A designating the initial issue of the Series).

Series 1974 notes are expected to be released to the Federal Reserve System later this summer with general circulation thereafter. Because of greater usage and more rapid attrition, the $1 denomination will be printed first, with $5 and $10 denominations appearing later as total conversion to the new notes is completed in the Bureau of Engraving and Printing and supplies are depleted ot retired.

It was the first time since June 4, 1969, when the Kennedy-Elston notes were issued, that Federal Reserve notes had dual signature changes.

James A. Conlon, the Director of the Bureau of Engraving and Printing, presided at today's brief ceremony in Washington.

oOo

WS-50

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

NEWS

TELEPHONE 634-5248

FOR IMMEDIATE RELEASE
Friday, July 5, 1974

OFFICE OF REVENUE SHARING
ISSUES FINAL F.Y. '74 PAYMENT

Checks totaling more than $1.53 billion are being sent by the Treasury Department's Office of Revenue Sharing today to all states, the District of Columbia and 37,242 local governments. Today's payment is the final quarterly payment of funds authorized to be distributed for federal fiscal year 1974.

Shared revenues are allocated to all general-purpose units of government by computer according to formulas contained in the State and Local Fiscal Assistance Act of 1972. Payments are made on a quarterly basis, in October, January, April and July.

Today's payment brings to $14.27 billion the amount of federally-collected revenues that has been shared with states and local governments since the first checks were mailed, in December 1972.

Through general revenue sharing, $30.2 billion will be distributed to some 38,000 states, counties, cities, towns, townships, Indian tribes and Alaskan native villages over a five-year period extending through December 1976.

(more)

More than $6 billion will be shared with states and local governments in fiscal year 1975 alone.

Plans for uses of fiscal year 1975 money have already been reported to the Office of Revenue Sharing by more than 35,000 recipient units of government. The Planned Use Report forms distributed to all states and local governments in April were due to be returned to the Office of Revenue Sharing by June 24, 1974. Governments cannot receive fiscal year 1975 funds until the reports have been filed.

Reports on plans for and actual uses of shared revenues must be published locally in newspapers of general circulation and all news media,including minority and bi-lingual news media must be informed of the publication.

Actual Use Report forms covering the period June 30, 1973 to June 30, 1974 have been distributed by the Office of Revenue Sharing. They must be completed, published and returned by September 1, 1974.

The Office of Revenue Sharing has installed a special telephone to be used by recipient government officials who need assistance completing the Trust Fund section of the Actual Use Report forms. The new phone number is (202) 634-5200.

(more)

9

Informal reports elaborating on required information, indicate that citizens are being encouraged by governments on all levels to help make decisions on uses of the funds.

In San Diego, California, for example, the city and county governments have pooled some of their shared revenues in a new trust fund to pay costs of social services within the community. Called the Human Care Services Project, the effort represents a new form of intergovernmental cooperation. Funds are allocated among projects proposed by community service groups in San Diego.

Shared revenues are being used for a variety of purposes, reflective of the wide variety of needs among our citizens. New York City used approximately $200 million of its early money to maintain the local rapid transit fare at a constant level. Stevens Village, Alaska spent revenue sharing dollars to purchase lumber with which to build its first health clinic.

"The uses to which shared revenues are being put clearly are serving many different types of needs in many different types of communities," Graham Watt said today. "Most importantly," he added, "local officials are

(more)

demonstrating their ability and willingness to observe congressional restrictions while fulfilling their responsibility to use the funds effectively in meeting priority community needs."

##

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

FOR IMMEDIATE RELEASE July 2, 1974

10

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 July 11, 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 April 11, 1974, and to mature October 10, 1974 (CUSIP No. 912793 UT1), originally issued in the amount of $1,801,960,000 (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 July 11, 1974 and to mature January 9, 1975 (CUSIP No. 912793 VQ6).

The bills will be issued for cash and in exchange for Treasury bills maturing July 11, 1974 outstanding in the amount of $4,310,745,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,440,125,000. 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 8, 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 July 11, 1974, in cash or other immediately available funds or in a like face amount of Treasury bills maturing July 11, 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 IMMEDIATE RELEASE July 3, 1974

STATEMENT BY SECRETARY OF THE TREASURY WILLIAM E. SIMON

"I am delighted that the House of Representatives today passed the bill authorizing replenishment of the funds of the International Development Association.

"I hope that a Conference will speedily resolve the differences between the House and Senate Bills, and that the President will be able to sign the resulting measure soon.

"It has been of major concern to me that, in our international negotiations, we do not place the United States in the position of turning our backs on the poorest nations of the world -- and this bill authorizes funds for those nations."

oOo

WS-51

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

12

FOR RELEASE 2 P.M., EDT
FRIDAY, JULY 5, 1974

The report of the daily cash and debt operations of the United States Treasury, known as the Daily Treasury Statement, came out in a new format today, the first change in the publication in 20 years.

Initially published in 1895, the last major revision of the Daily Treasury Statement was in 1954. The publication is unique among reports of national governments in providing a continuing accounting of financial activity for analysts and the general public.

The old format won't be dropped immediately, however, since it will be published concurrently with the new one for a 30-day period to allow users a transitional period.

oOo

13

AMERICAN REVOLUTION BICENTENNIAL 1776-1976

Daily Statement of the United States Treasury

JULY 1, 1974

TABLE I--ACCOUNT OF THE UNITED STATES TREASURY

ASSETS		LIABILITIES	
Gold (oz. 273,949,698.8)	$11,566,758,971.14	Gold certificates (Series of 1934)	$1,277,800.00
(On July 2, 1973, the stock of gold was oz. 273,953,343.0)		Gold certificate fund - Federal Reserve System	11,459,121,680.42
		Subtotal	11,460,399,480.42
		Balance of gold	106,359,490.72
Total	11,566,758,971.14	Total	11,566,758,971.14
Available funds in demand accounts at:			
Federal Reserve Banks	2,419,007,642.91		
Special depositaries, Treasury Tax and Loan Accounts	7,250,081,252.16		
Other depositaries	88,465,000.00		
Treasury operating balance	9,757,553,895.07		
Funds in process of collection through:			
Federal Reserve Banks	258,401,324.62		
Other depositaries	107,763,525.36		
Time deposits and other depositary accounts	17,642,179.66		
Gold balance (as above)	106,359,490.72		
Coin and currency	180,015,941.24		
Coinage metals	418,117,868.72		
Miscellaneous items	54,272,575.97	Balance, general account	10,900,126,801.36
Total	10,900,126,801.36	Total	10,900,126,801.36

TABLE II--CHANGES IN BALANCE OF ACCOUNT OF THE UNITED STATES TREASURY

Classification	This month to date	Corresponding month last year[1]	Fiscal year 1974 to date (Beginning July 1, 1973)	Corresponding period fy 1973[1] (Beginning July 1, 1972)
Balance of account, beginning of period	$10,351,990,487.42	$13,741,306,873.33	$10,351,990,487.42	$13,741,306,873.33
Excess of deposits (+) or withdrawals (-), public debt accounts (Table III)	-1,046,841,066.47	-2,752,944.31	-1,046,841,066.47	-2,752,944.31
Excess of deposits (+) or withdrawals (-), budget and other accounts (Table IV)	-200,289,173.68	+460,098,455.22	-200,289,173.68	+460,098,455.22
Excess of deposits (+) or withdrawals (-), sales and redemptions of Government agencies' securities in the market	-1,300,162,000.00	+164,573,443.75	-1,300,162,000.00	+164,573,443.75
Clearing accounts:				
Excess of deposits (-) or checks issued (+) classified in Table III or IV for which the documents have not yet been received by the Treasury	+915,146,685.16	-527,478,599.52	+915,146,685.16	-527,478,599.52
Excess of deposits (+) or checks cleared (-) at Federal Reserve Banks, which have affected the Treasury's balance, but not yet classified	+2,180,281,868.93	-843,026,988.61	+2,180,281,868.93	-843,026,988.61
Balance of account, this date (Table I)	10,900,126,801.36	12,992,720,239.86	10,900,126,801.36	12,992,720,239.86

TABLE III--CHANGES IN THE PUBLIC DEBT

	This month to date	Corresponding month last year	Fiscal year 1974 to date	Corresponding period fy 1973
Gross public debt at beginning of period	$475,059,815,731.55	$458,141,605,312.09	$475,059,815,731.55	$458,141,605,312.09
Increase (+) or decrease (-) in the gross public debt:[2]				
Public issues:				
Marketable:				
Treasury bills	-9,525,000.00	+110,115,000.00	-9,525,000.00	+110,115,000.00
Treasury certificates of indebtedness	....	....	....	....
Treasury notes	-252,000.00	-1,089,000.00	-252,000.00	-1,089,000.00
Treasury bonds	-1,436,000.00	-1,879,250.00	-1,436,000.00	-1,879,250.00
Other	-67.00	....	-67.00	....
Total marketable issues	-11,213,067.00	+107,146,750.00	-11,213,067.00	+107,146,750.00
Nonmarketable:				
United States savings bonds and notes	-12,284,232.79	+1,079,674.79	-12,284,232.79	+1,079,674.79
Treasury bonds, investment series	-3,000.00	-4,000.00	-3,000.00	-4,000.00
Other	-35,761,593.82	-115,058,352.32	-35,761,593.82	-115,058,352.32
Total nonmarketable issues	-48,048,826.61	-113,982,677.53	-48,048,826.61	-113,982,677.53
Total public issues	-59,261,893.61	-6,835,927.53	-59,261,893.61	-6,835,927.53
Special issues	-1,835,995,672.86	-696,021,254.81	-1,835,995,672.86	-696,021,254.81
Other issues	....	....	....	....
Change in gross public debt	-1,895,257,566.47	-702,857,182.34	-1,895,257,566.47	-702,857,182.34
Gross public debt this date	473,164,558,165.08	457,438,748,129.75	473,164,558,165.08	457,438,748,129.75
Change in gross public debt, increase (+) or decrease (-)	-1,895,257,566.47	-702,857,182.34	-1,895,257,566.47	-702,857,182.34
Excess of purchases (-) or redemptions (+), investments of Government agencies in public debt securities	+848,416,000.00	+725,324,700.00	+848,416,000.00	+725,324,700.00
Public debt redemptions included as withdrawals in Table IV (+) (Table V)	+500.00	+97,477,164.23	+500.00	+97,477,164.23
Accruals on certain public debt securities (-) (Table V)	....	-122,697,626.20	....	-122,697,626.20
Excess of deposits (+) or withdrawals (-), public debt (Table II)	-1,046,841,066.47	-2,752,944.31	-1,046,841,066.47	-2,752,944.31
Gross public debt this date	473,164,558,165.08	457,438,748,129.75	473,164,558,165.08	457,438,748,129.75
Guaranteed debt of U.S. Government agencies	428,105,225.00	431,709,800.00	428,105,225.00	431,709,800.00
Total gross public debt and guaranteed debt	473,592,663,390.08	457,870,457,929.75	473,592,663,390.08	457,870,457,929.75
Deduct debt not subject to statutory limitation	617,240,157.55	619,756,901.30	617,240,157.55	619,756,901.30
Add Participation Certificates subject to limitation	1,135,000,000.00	1,135,000,000.00	1,135,000,000.00	1,135,000,000.00
Total subject to limitation[3]	474,110,423,232.53	458,385,701,028.45	474,110,423,232.53	458,385,701,028.45

See footnotes on page 2.

TABLE IV--ANALYSIS OF CERTAIN DEPOSITS AND WITHDRAWALS

This table reflects deposits and withdrawals made in the account of the United States Treasury. These deposits and withdrawals differ in timing and content from receipts and outlays published in the Monthly Statement of Receipts and Outlays of the United States Government. The Monthly Statement provides the classification of receipts and outlays in terms of the Budget of the United States.

Classification	This month to date	Corresponding month last year [1]	Fiscal year 1974 to date (Beginning July 1, 1973)	Corresponding period fy 1973[1] (Beginning July 1, 1972)
DEPOSITS				
Internal revenue:				
Withheld individual income and Federal Insurance Contributions Act taxes[4]	$861,720,236.74	$494,478,022.76	$861,720,236.74	$494,478,022.76
Other individual income and Self-Employment Contributions Act taxes[4]	307,604,948.34	160,759,557.89	307,604,948.34	160,759,557.89
Corporation income taxes	403,419,870.78	281,528,630.25	403,419,870.78	281,528,630.25
Excise taxes	66,555,635.35	45,751,092.46	66,555,635.35	45,751,092.46
Railroad Retirement Tax Act	8,759,724.35	10,229,322.57	8,759,724.35	10,229,322.57
Federal Unemployment Tax Act	417,476.86	486,852.25	417,476.86	486,852.25
Estate and gift taxes	11,010,825.01	13,927,655.22	11,010,825.01	13,927,655.22
Taxes collected, not yet classified, increase or decrease (-)	-427,791,174.35	103,497,093.93	-427,791,174.35	103,497,093.93
Customs	15,461,184.25	12,027,990.45	15,461,184.25	12,027,990.45
Deposits by States and Railroad Retirement Board in unemployment trust fund	....	....	....	....
Veterans' life insurance funds	....	2,433.03	....	2,433.03
All other	35,196,982.52	158,707,495.68	35,196,982.52	158,707,495.68
Total	1,282,355,709.85	1,281,396,146.49	1,282,355,709.85	1,281,396,146.49
Deduct: Refunds of receipts	85,666,474.83	15,848,862.02	85,666,474.83	15,848,862.02
Net deposits	1,196,689,235.02	1,265,547,284.47	1,196,689,235.02	1,265,547,284.47
WITHDRAWALS				
Defense Department:				
Military (including military assistance)	510,746,725.08	321,911,852.80	510,746,725.08	321,911,852.80
Civil	20,364,133.73	8,976,724.75	20,364,133.73	8,976,724.75
Foreign assistance - economic	22,996,085.40	20,102,952.48	22,996,085.40	20,102,952.48
Atomic Energy Commission	67,352,274.80	16,767,841.72	67,352,274.80	16,767,841.72
National Aeronautics and Space Administration	27,371,765.96	33,532,485.70	27,371,765.96	33,532,485.70
Veterans Administration	5,595,257.11	7,421,969.73	5,595,257.11	7,421,969.73
Commodity Credit Corporation	-4,906,786.70	-7,343,551.84	-4,906,786.70	-7,343,551.84
Health, Education, and Welfare Department	121,685,295.33	50,461,377.10	121,685,295.33	50,461,377.10
Interest on the public debt	10,853,267.95	118,791,675.43	10,853,267.95	118,791,675.43
Federal employees' retirement funds	....	1,543,465.90	....	1,543,465.90
Federal old-age, disability, and health insurance trust funds	38,843,676.99	58,010,073.31	38,843,676.99	58,010,073.31
Highway trust fund	6,126,989.48	11,281,339.73	6,126,989.48	11,281,339.73
Railroad retirement accounts	....	-31,871.56	....	-31,871.56
Unemployment trust fund	61,105,000.00	23,690,000.00	61,105,000.00	23,690,000.00
Veterans' life insurance funds	5,935,653.79	525,699.01	5,935,653.79	525,699.01
All other	502,909,069.78	139,806,794.99	502,909,069.78	139,806,794.99
Total withdrawals	1,396,978,408.70	805,448,829.25	1,396,978,408.70	805,448,829.25
Excess of deposits (+) or withdrawals (-) applicable to budget, and other accounts. (For other deposit and withdrawal data, see Table II)	-200,289,173.68	+460,098,455.22	-200,289,173.68	+460,098,455.22

TABLE V--MEMORANDUM ON CERTAIN TRANSACTIONS IN PUBLIC DEBT ACCOUNTS

Classification	This month to date	Corresponding month last year [1]	Fiscal year 1974 to date	Corresponding period fy 1973[1]
Non-cash items included in public debt issues in Table III and omitted from Withdrawals in Table IV:				
Increments on savings and retirement plan securities	....	....	....	....
Discount accrued on Treasury bills	....	$122,697,626.20	....	$122,697,626.20
Total	....	122,697,626.20	....	122,697,626.20
Cash payments included in public debt redemptions in Table III and also in Withdrawals in Table IV:				
Interest included in redemptions of savings and retirement plan securities	....	18,251,403.23	....	18,251,403.23
Discount included in Treasury bill redemptions	....	79,224,536.00	....	79,224,536.00
Other	$500.00	1,225.00	$500.00	1,225.00
Total	500.00	97,477,164.23	500.00	97,477,164.23

TABLE VI--U.S. SAVINGS BONDS--SERIES E AND H

Classification	This month to date	Corresponding month last year [1]	Fiscal year 1974 to date	Corresponding period fy 1973[1]
Sales--cash issue price	$21,063,854.52	$20,983,765.74	$21,063,854.52	$20,983,765.74
Accrued discount on Series E	....	....	....	....
Total	21,063,854.52	20,983,765.74	21,063,854.52	20,983,765.74
Redemptions--for cash, at current redemption value	33,354,878.56	19,890,124.00	33,354,878.56	19,890,124.00
Exchanges--Series H for Series E and savings notes	2,569,500.00	1,712,500.00	2,569,500.00	1,712,500.00

[1] Covers period through July 2, 1973.
[2] Includes exchanges.
[3] The statutory debt limit, established at $400 billion, was temporarily increased to $495 billion through March 31, 1975.

[4] Distribution in accordance with provisions of Social Security Act, as amended, is shown in Monthly Treasury Statement.

For sale by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402
Subscription price $41.75 per year (domestic), $10.45 per year additional (foreign mailing), includes all issues of daily Treasury statements and the Monthly Statement of Receipts and Outlays of the U.S. Government. No single copies are sold.

Salient features of the new format are these:

- All information represents activity which took place on the date of the statement.
- Activities at Federal Reserve Banks, tax and loan account depositaries, and other demand account depositaries are shown separately.
- Significant one-time or intermittent transactions are identified and reported as they occur.
- Transactions in nonmarketable securities issued to foreign governments are reported separately.
- Tax and loan account activity by size category of banks is shown separately.
- A separate table of memorandum information will be provided for reporting data, such as tax refund checks issued (to be reported during January through June) which are important for cash flow analysis, but which are not susceptible to daily classification at the point of impact on the Treasury's cash balance.

The Daily Statement, in both the current format and the new format, is a statement showing cash and debt activities, and does not purport to show Federal budget data. Classification of budget receipts and outlays will continue to be reported in the Monthly Statement of Receipts and Outlays of the United States Government. The classifications provided in the new format of the Daily Statement do not necessarily correspond to the similar classifications shown in the Monthly Statement because of different reporting bases and sources. The Treasury expects to expand and refine the classifications in the new format of the Daily Statement as accounting and reporting techniques are improved.

Pertinent historical data will be available on request from the Office of the Fiscal Assistant Secretary, Department of the Treasury, by the latter part of July.

THE DAILY STATEMENT OF THE UNITED STATES TREASURY

Beginning July 1, 1974, the Daily Statement of the United States Treasury is being published in a new format concurrently with publication of the statement in the present format. The new format incorporates features which are designed to disclose the United States Treasury's daily cash and debt operations in the manner most useful to analysts in the financial community and the general public at large. The present format of the Daily Statement will be continued for approximately thirty days to permit users to compare the different formats, digest the import of information provided in the new format, and adjust their analytical techniques accordingly.

With the discontinuance of the present format, it is planned to publish the statement within two days of the date of activity rather than the three days required for the present format. The extensive detail on the public debt, heretofore published with the Daily Statement for the last day of the month, will be published hereafter in a separate monthly statement.

The new format is derived from the system used internally in the Treasury for many years in following actual cash flows and estimating future cash movements and borrowing requirements. It is based on information reported daily by wire and telephone from the Federal Reserve System and internal Treasury sources. The present format has incorporated some of this timely information -- notably the level of cash balances and the classification of major tax receipts -- but has also depended on other types of reporting with varying time lags of from five to fifteen days. Relating the latter information to the cash balances has required the maintenance of involved clearing accounts and the appearance, but not the substance, of precise classifications of activity affecting the Treasury's cash.

Daily Statement of the United States Treasury

JULY 1, 1974

(Detail, rounded in millions, may not add to totals)

TABLE I Operating Cash Balance

Type of account	Closing balance this day	Opening balance		
		This day	This month	This fiscal year
Federal Reserve Bank accounts..........	$2,417	$2,919	$2,919	$2,919
Tax and loan accounts (Table V)........	7,249	6,151	6,151	6,151
Other demand accounts..................	89	89	89	89
Total operating balance................	9,755	9,159	9,159	9,159

TABLE II Deposits and Withdrawals of Operating Cash

Deposits	Today	This month to date	Fiscal year to date
In Federal Reserve Bank accounts:			
Public debt receipts (Table III-B)	$ 63	$ 63	$ 63
Taxes received through Federal tax deposit system (Table IV)........	87	87	87
Individual income and employment taxes, not withheld.............	301	301	301
Estate and gift taxes.............	13	13	13
Deposits by States:			
Social security................	*	*	*
Unemployment....................	1	1	1
Supplemental security income....	6	6	6
Gas and oil lease sales proceeds..	1,178	1,178	1,178
Other deposits:			
Total, other deposits...........	–	–	–
Change in balance of uncollected funds (closing balance 255)	+22	+22	+22
Transfers from other depositaries	4	4	4
Total, Federal Reserve Bank accounts.........................	1,675	1,675	1,675
In tax and loan accounts:			
Public debt receipts (Table III-B)	11	11	11
Taxes received through Federal tax deposit system (Table IV)....	789	789	789
Transfers from Federal Reserve Banks............................	300	300	300
Total, tax and loan accounts (Table V).......................	1,102	1,102	1,102
In other demand accounts:			
Transfers from Federal Reserve Banks............................	–	–	–
Total, deposits....................	2,777	2,777	2,777

Withdrawals	Today	This month to date	Fiscal year to date
From Federal Reserve Bank accounts:			
Public debt redemptions (Table III-B)....................	$ 133	$ 133	$ 133
Medicare..........................	45	45	45
HEW grants (selected).............	302	302	302
Unemployment insurance............	22	22	22
Supplemental security income......	17	17	17
Interest on public debt...........	60	60	60
Commodity Credit Corporation (net).	-29	-29	-29
Export-Import Bank (net)..........	–	–	–
Agency investments in market (net).	115	115	115
Other withdrawals:			
Unclassified....................	1,212	1,212	1,212
Total, other withdrawals........	1,212	1,212	1,212
Transfers to other depositaries	300	300	300
Total, Federal Reserve Bank accounts..........................	2,177	2,177	2,177
From tax and loan accounts:			
Transfers to Federal Reserve Banks (Table V)....................	4	4	4
From other demand accounts:			
Transfers to Federal Reserve Banks	–	–	–
Total, withdrawals................	2,181	2,181	2,181
Net total, change in operating cash balance.........................	+596	+596	+596

*Less than $500 thousand.

TABLE III-A Public Debt Transactions

(Stated at face value except for savings and retirement plan securities which are stated at current redemption value.)

Issues	Today	This month to date	Fiscal year to date	Redemptions	Today	This month to date	Fiscal year to date
Marketable:				Marketable:			
Bills:				Bills:			
Treasury:				Treasury:			
Regular series	$ –	$ –	$ –	Regular series	$ 8	$ 8	$ 8
Tax anticipation series	–	–	–	Tax anticipation series	1	1	1
Bonds and notes:				Bonds and notes:			
Treasury	–	–	–	Treasury	2	2	2
Nonmarketable:				Nonmarketable:			
Savings and retirement plan series				Savings and retirement plan series	36	36	36
Cash issue price	24	24	24	Special issues	3,018	3,018	3,018
Interest increment				Foreign Government series	48	48	48
Special issues	1,182	1,182	1,182	Other	38	38	38
Foreign Government series	48	48	48				
Other	2	2	2				
Total, issues	1,256	1,256	1,256	Total, redemptions	3,151	3,151	3,151
				Net total, change in public debt outstanding	-1,895	-1,895	-1,895

TABLE III-B Adjustment of Public Debt Transactions to Cash Basis

Transactions	Today	This month to date	Fiscal year to date
Public debt cash receipts:			
Public debt issues (Table III-A)	$1,256	$1,256	$1,256
Premium on new issues			
Discount on new issues:			
Bills (-)	–	–	–
Bonds and notes (-)	–	–	–
Adjustment for special issues (-)	1,182	1,182	1,182
Interest increment on savings and retirement plan series (-)	–	–	–
Total, public debt cash receipts	74	74	74
These receipts were deposited in:			
Federal Reserve Bank accounts	63	63	63
Tax and loan accounts	11	11	11
Public debt cash redemptions:			
Public debt redemptions (Table III-A)	3,151	3,151	3,151
Adjustment for special issues (-)	3,018	3,018	3,018
Total, public debt cash redemptions	133	133	133

TABLE IV Taxes Received Through Federal Tax Deposit System

Classification	Today	Month to date	Fiscal year to date
Withheld income and employment taxes	$861	$861	$861
Railroad retirement taxes	2	2	2
Excise taxes	35	35	35
Corporation income taxes	405	405	405
Federal unemployment taxes	*	*	*
Change in balance of taxes collected but not yet classified	-427	-427	-427
Total	876	876	876
These receipts were deposited in:			
Federal Reserve Bank accounts	87	87	87
Tax and loan accounts	789	789	789

[1]Public debt outstanding has been adjusted, showing IMF notes separately, to conform with Office of Management and Budget's presentation of the budget.

TABLE III-C Debt Subject to Limit

Classification	Closing balance this day	Opening balance This day	Opening balance This month	Opening balance This fiscal year
Total public debt outstanding[1]	472,339	474,235	474,235	474,235
Less public debt not subject to limit:				
Treasury (-)	617	617	617	617
Plus other obligations subject to limit:				
Guaranteed debt of Federal Agencies	428	428	428	428
International Monetary Fund	825	825	825	825
Specified participation certificates	1,135	1,135	1,135	1,135
Total, subject to limit	474,110	476,006	476,006	476,006
Statutory limit	495,000	495,000	495,000	495,000

The statutory debt limit, established at $400 billion, was temporarily increased to $495 billion through March 31, 1975.

TABLE V Tax and Loan Accounts by Bank Category

Classification	A	B	C	Total
Opening balance today	$1,705	$709	$3,737	$6,151
Deposits	78	219	805	1,102
Withdrawals	–	4	–	4
Closing balance today	1,783	924	4,542	7,249

TABLE VI Memorandum Information

Gold accounts	
Assets: Gold (273,949,698.8 oz.)	$11,567
Liabilities:	
Gold Certificates (series of 1934)	1
Gold Certificate Fund --Federal Reserve System	11,460
Balance of gold	106

14

For Guidance in Answering Press Inquiries

The Treasury Department has been advised that the United States Customs Court in New York has issued an opinion for the Plaintiff and against the Government in the case of Yoshida International, Inc. v. United States. The Department has not yet had an opportunity to study the opinion and will, therefore, have no comment at this time.

Background

On August 15, 1971, the President issued Proclamation 4074 imposing an additional duty of 10 percent *ad valorem* on imports into the United States. The surcharge was terminated on December 20, 1971, by Presidential Proclamation 4098. In 1972 an action was filed in the Customs Court by an importer (Yoshida) claiming that Presidential Proclamation 4074 was illegal and void and requesting a refund of the assessment imposed pursuant to the Proclamation. The Government has contended that the Presidential action was lawful and was authorized by the Tariff Act of 1930 and the Trade Expansion Act of 1962 as well as by the Trading with the Enemy Act.

7-8-74

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

15

FOR IMMEDIATE RELEASE July 9, 1974

SECRETARY SIMON SWEARS IN BENNETT AND SCHMULTS

Treasury Secretary William E. Simon today conducted swearing-in ceremonies for Jack F. Bennett of Connecticut, who became Under Secretary for Monetary Affairs, and Edward C. Schmults of Maryland, who became Under Secretary of the Treasury, succeeding Mr. Bennett.

Mr. Bennett, 50, had been Under Secretary of the Treasury since March 15, 1974. Mr. Schmults, 43, had been General Counsel of the Treasury since June 4, 1973.

The ceremonies, attended by families only, were conducted in Secretary Simon's office.

oOo

WS-54

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

FOR RELEASE 6:30 P.M. July 8, 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 July 11, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing October 10, 1974		:	26-week bills maturing January 9, 1975	
	Price	Equivalent Annual Rate	:	Price	Equivalent Annual Rate
High	98.032 a/	7.785%	:	95.753 b/	8.401%
Low	97.990	7.952%	:	95.689	8.527%
Average	98.005	7.892% 1/	:	95.713	8.480% 1/

a/ Excepting 1 tender of $20,000
b/ Excepting 2 tenders totaling $20,000

Tenders at the low price for the 13-week bills were allotted 45%.
Tenders at the low price for the 26-week bills were allotted 4%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 54,305,000	$ 41,545,000	:	$ 27,645,000	$ 15,645,000
New York	3,278,815,000	2,149,925,000	:	2,745,820,000	1,578,640,000
Philadelphia	31,985,000	31,985,000	:	14,490,000	14,440,000
Cleveland	65,490,000	64,770,000	:	48,265,000	37,945,000
Richmond	50,695,000	30,695,000	:	46,610,000	28,010,000
Atlanta	50,045,000	43,025,000	:	41,030,000	34,175,000
Chicago	183,025,000	85,800,000	:	257,030,000	45,630,000
St. Louis	37,495,000	29,045,000	:	34,735,000	24,735,000
Minneapolis	19,295,000	6,110,000	:	9,370,000	5,370,000
Kansas City	31,930,000	30,975,000	:	39,075,000	37,825,000
Dallas	38,890,000	23,540,000	:	39,540,000	22,955,000
San Francisco	171,010,000	62,680,000	:	122,885,000	54,885,000
TOTALS	$4,012,980,000	$2,600,095,000 c/		$3,426,495,000	$1,900,255,000 d/

c/ Includes $ 440,395,000 noncompetitive tenders accepted at average price.
d/ Includes $360,830,000 noncompetitive tenders accepted at average price.
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 8.16 % for the 13-week bills, and 8.98% for the 26-week bills.

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

17

FOR RELEASE ON DELIVERY

STATEMENT BY THE HONORABLE JACK F. BENNETT
UNDER SECRETARY OF THE TREASURY
BEFORE
THE SUBCOMMITTEE ON INTERNATIONAL FINANCE
OF
THE HOUSE COMMITTEE ON BANKING AND CURRENCY
TUESDAY, JULY 9, 1974 AT 10:00 A.M. EDT

Mr. Chairman and Members of the Subcommittee:

The hearings you have scheduled for this morning are particularly opportune for me. At noon today, I am scheduled to have the honor of being sworn in as Paul Volcker's successor as Under Secretary of the Treasury for Monetary Affairs. At any time that would be a challenging assignment, but it hasn't escaped my attention, any more than it has yours, that conditions today in foreign exchange and financial markets and rates of growth in prices and economic production are far from satisfactory around the world. Under the circumstances, it seems fitting that I be subjected to some public cross-examination of my thinking as I enter into the new duties. I am painfully aware, however, that the oath to be administered later today by Secretary Simon will not make me an instant expert on all economic subjects.

In trying to understand our present difficulties, I think primary attention must be given to two major developments of the last several years:

First, the shortfalls and cutbacks in previously anticipated levels of production of important basic raw materials, most importantly oil; and

WS-52

Second, a widespread tendency for governments to print more money and more government IOU's than were appropriate in such conditions of supply stringency.

In my prepared statement this morning, I propose to concentrate on the first of these developments, and particularly on the impact of the reduction in anticipated levels of oil production. That impact continues to be large, and our difficulties are exacerbated by the uncertainty as to just how large the cutback will be in the future.

Last September, before the outbreak of fighting in the Mideast, production of oil in the non-communist world was just short of 48 million barrels a day. By November, certain governments in Africa and the Mideast had cut production back by about 5 million barrels a day. This large cutback was followed quickly by a large increase in prices on new short-term oil sales. Even now, some of the producing countries are continuing to cut back production far below the levels of last September; but elsewhere production has grown so that total world production is probably now about at last September's level -- within two or three hundred thousand barrels per day, one way or the other. But it is important to note that that level of actual production today still reflects restraints by certain governments which are holding total production roughly 4 million barrels a day below the level which could be produced efficiently with existing capacity in place.

New contract oil sale prices have fallen from the temporary peaks of early this year, but some oil producers are still attempting to charge extraordinarily high prices. In view of these high prices, consumers both in the U.S. and elsewhere have continued to hold their consumption well below levels predicted earlier. In fact, on a worldwide basis consumption has been less than production for some time now. Inventories have been building up and are now approaching the spill-over point.

 18

Under these circumstances, crude oil prices today clearly are under strong pressure to decline further on international markets -- though not on the bulk of U.S. production, which is under severe price control. Yet, there are those in the producing countries who are urging their governments to make new sharp cutbacks in production in order to try to maintain today's high oil prices, or even to try to increase them again. The producing governments are being urged to raise prices on that portion of the oil production being sold directly by the governments and to renege on long-term contracts to make some oil available on the basis of agreed specified payments of royalties and taxes to the governments.

In my view, any new cutbacks in oil production by any government at this time should clearly be regarded by the United States and by all other consuming countries, both more-developed and less-developed, as a counter-productive measure Moreover, even apart from the political and security implications for the producers, I am convinced that any such cutbacks would turn out to be economically harmful to the producers for two reasons. In the first place, the price effects of such cutbacks would inevitably lead to such further intensification of research and investment relating to alternative sources of energy and to alternatives to energy use that the effect would be to reduce the total value which the exporters would receive for their oil over the life of their producing fields. Cutbacks might bring a higher price for a short period, but they would bring a more than offsetting reduction in revenues for a long time thereafter -- in view of the importers' increased commitment to alternatives.

In the second place, maintenance of present costs of export oil -- even with no increases -- would threaten severe economic -- and, in some cases, political -- damage to a large number of consuming countries to an extent which could not help but cause damaging backlash on the producers as well.

The damage to the consuming countries in the first instance would be simple but real -- the result of an increase in the costs of their oil imports far greater than the increase in the prices of their exports. In this regard, I realize that some officials of oil-producing countries have attempted to justify further oil price increases by reference to increases in the prices of goods imported into those countries. Providing the producers with this argument has undoubtedly been one additional damage we in the developed nations have inflicted on ourselves by our miserable performance in relation to inflation. But we should not lose our sense of proportion. Since 1970, for example, the new contract FOB export dollar price of Saudi Arabian light crude has increased approximately 730%, whereas the average cost of imported goods and services into the producing countries has increased only about 70% over the same period. Clearly, the increase in oil prices has been about 10 times as large. On a similar calculation, the oil price increase has been about 7 times as large from 1960 to the present.

This large and sudden adverse change in their terms of trade finds different nations with widely varying capabilities to adapt. For most importing nations, including the United States, the impact is reducing our standard of living and is reducing our rate of economic growth, but our lives and our institutions are not seriously threatened. In a number of other nations, however, nations whose standards of living were already at the literal margin, and whose hopes for economic advancement were fragile in any case, the sudden increase in the costs of oil -- and, consequently, of fertilizer as well -- could be catastrophic unless there is emergency assistance. And even in some countries whose standards of living are far above the subsistence level the new prices could -- in the absence of far-sighted international cooperation -- threaten the collapse of existing institutions.

Such severe damage to the consuming countries would create a backlash on the producers -- apart from political

 19

dangers -- through undermining the economies to which the oil producers must export if they are to derive the maximum value from their limited resources; and through undermining the economies in which the oil producers must temporarily invest if they are to sell their oil at the most rewarding time and spend the proceeds on equipment and services for their own diversified development at the optimal, non-wasteful pace.

You will have observed that, in discussing these implications of actual and potential oil production cutbacks, I have stressed the underlying and real economic effects. I do this because I believe they are serious -- and because I think the world should be aware of the contrast between the deliberate cutbacks by some oil producers, on the one hand, and the determined efforts being made, on the other hand, by the United States and other nations to increase to the maximum their production of agricultural and other commodities to supply world markets.

While I stress these basic effects, I do not wish to ignore the impacts of the oil cutbacks on the financial institutions and arrangements of the Free World. The indirect effects have been serious and well publicized for a small number of banks, for example. Yet, in my judgment, our financial institutions and international monetary arrangements are not likely to be basically threatened by these developments in the commodity field. Current problems are real for some individuals, for particular companies, and for entire countries, but they are the problems of reduced supply of goods; they are not likely to be intensified by failure of our instruments of financial cooperation.

Neither do I feel that current developments pose a serious threat of world depression. Those who concentrate their worrying today on the possibility of world depression have brought to my mind the picture of a man immobilized in the face of a charging bull by the fear that if he tried to escape the animal by jumping sideways he might possibly brush up against an unseen rattlesnake. Certainly, rattlesnakes -- and also inadequate demand for our economic production -- are always conceivable dangers; but, right now, the clear and present danger before us is not inadequate demand but far too much monetary demand facing existing capacity to produce. Efforts to draw a parallel between today's circumstances and the early thirties seem to me far fetched. The problem then was too little demand facing large amounts of unused capacity.

The developments in the commodity markets have, of course, been resulting in large changes in previous patterns of financial flows. Consumers and consuming nations are choosing to borrow a lot more than before in order to ease their transition to a world of higher cost energy. And some of the oil producers are choosing to export a large part of their oil in exchange for IOU's from the consuming countries.

There have been various estimates that the oil-producing countries in combination will increase their investments abroad by $50 to $60 billion during this year. I don't place confidence in any precise estimate, for it is now unclear, not only what the price of oil will be during the rest of this year, but even what it was for the first half of the year, since various negotiations on that subject are still under way. Furthermore, at any particular price, it is unclear how much oil any individual consuming country will choose to buy, to what extent it will choose to run current account deficits by lightening its current economic burdens through borrowing and burdening its future with repayment obligations. Italy and France, for example, have recently taken forceful domestic measures to reduce their oil consumption and their reliance on oil imports, and many other nations will probably take steps in that same direction.

Forecasts of the rate of further accumulation of foreign investments by the oil-producing countries in future years are even more tenuous. My own expectation, however, is that the rate will decline each year, not only because of the lower oil prices I anticipate, but also because over time the development plans of the producers will have progressed so that they are using up increasing proportions of current revenues. It has been estimated that this year oil exporters will be spending around 40% of their receipts for current imports; I would expect this percentage to be much larger in future years -- and, ultimately, it will exceed 100%.

Meanwhile, however, the oil producers have been accumulating what, by any standards, are large investments. By now, they quite probably exceed $30 billion; and in the early months of this year the accretions were being largely placed in short-term bank deposits concentrated in the foreign branches and foreign currency accounts which comprise the so-called Euro-market. This concentration had begun to raise questions about capital adequacy in the banks and about their vulnerability to sudden large withdrawals. More recently, strong counter-pressures have begun to exert themselves. The banks have begun to reject additional short-term deposits and to insist on terms more in line with the relending opportunities available to them. The oil-producing countries, themselves, and other depositors, have become more careful to insure they were not risking their funds in institutions with an inadequate capital base. And there has accordingly been increased interest in investing in U.S. Treasury securities and in other longer term securities, including U.S. corporate equities. Secretary Simon and I hope to discuss these possibilities during our trip to the Mideast starting Thursday. I suspect the time may also be coming when there will be increased interest both by foreign and by domestic investors in offering new equity for selected private banks. With the expanded banking business to be had, there will be those who wish to take advantage of the profitable investment opportunities which should exist. Obviously, new equity is the answer if banks have more business than they can handle with their existing equity base.

Secretary Simon, in his recent speech to the International Monetary Conference in Williamsburg, also recognized a governmental responsibility in this area. While noting that "Governmental regulation and emergency facilities can never substitute for prudent financial management", he nonetheless emphasized that "in 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."

All the recent attention to possible massive withdrawal of funds should not lead anyone to conclude that the oil-producing countries have been shifting their funds about in a volatile manner. In fact, their officials have shown themselves to be very conservative investment managers, well aware of the loss in the value of their investments which would result from any sudden effort to unload a large amount of their securities on the capital market or to transfer a large amount of their funds from one currency to another.

In relation to the foreign exchange markets, the situation must be monitored carefully, but it should be recognized that any instability which may have been causedby the large holdings of the oil producers are likely to have arisen not from sudden shifts of these funds from one investment to another but rather from swings in market expectations as to where their new accretions of funds would be invested.

In view of the uncertainty on this subject, it is fortunate that before the question arose there had already been so much progress toward greater flexibility in our international monetary arrangements. In this period of change in trade and investment patterns, and in the presence of widely differing rates of inflation in different countries, an attempt to maintain a framework of rigid exchange rates would probably have led, in practice, to explosive instability. There have been substantial changes in exchange rates since the upward spurt of oil prices began last October. Yet, these have been handled without serious interruption to the world's trade and investment transactions. A small number of banks did get into trouble in their foreign exchange dealing during this period, but their difficulties seem to have been focused in faulty internal procedures and in involvement in foreign exchange speculation out of proportion to the size of the institutions. Regrettable as their experience was, it probably has had the salutary effect of bringing other institutions to examine their foreign exchange practices more carefully. And the recent Herstatt case in Germany, in particular, is leading banks to consider whether changes are desirable in interbank clearing procedures to reduce unintended risk exposure in what were intended to be essentially riskless simultaneous exchange transactions.

21

In recent weeks, the U. S. and other governments have also given consideration to the possibility of setting up a new inter-governmental agency which would be designed to borrow large amounts of money from the oil producers on commercial terms and then to re-lend those funds in other countries again on commercial terms. That type of agency remains a possibility, if it should be needed, but at the moment the consensus -- which I think is wise -- is that it would be better to rely basically on the many different channels provided by existing institutions for handling the large, new investment flows among nations.

Governments, nonetheless, have an important supportive role. In the U. S., we recognized that earlier this year by removing the controls on the outflow of capital from the United States. We recognized it by expanding the network of bilateral swap agreements by which governments stand ready to help each other in case of short-run exchange market disturbances. And we and other governments recognized it by a wide range of cooperative international initiatives. At the recent final meeting of the "C-20" Ministerial Committee, there was a renewed dedication to international monetary cooperation and agreement on a new pledge to avoid restrictive trade measures for balance of payments purposes. A new facility was created in the IMF to provide 4- to 7-year credit assistance to aid nations in adjusting to higher oil prices, and there was agreement that in some cases -- through a so-called extended Fund facility -- the IMF should be able in special cases to provide credit of longer maturity to less-developed countries undergoing major structural changes. There is also an understanding that governments in need may sell some portion of their gold holdings into private markets or use their gold as collateral for borrowing.

All these actions were constructive responses which have strengthened our international monetary system. But we must recognize that for a small number of particularly hard hit countries these measures are not likely to be enough. I'm sure that Jim Grant will later this morning be more eloquent than I can be on the prospective plight of those countries whose standards of life were already abysmally low and now have the distinction of being the "most seriously affected" by the new oil prices. These are among the countries which have reason to be grateful to you on this Subcommittee for securing passage of the IDA authorization a few days ago. Yet, those funds were intentionally clearly earmarked to be used on specific long-range development projects to raise their people from the sink of poverty. Those IDA funds will not be, and should not be, available to help pay any of the tremendous increase in the costs of oil and fertilizer for the immediate use of their struggling economies. For this purpose, these countries will be pleading, before this year is over, for some non-project funds on a concessional basis. There is no likelihood, however, that such funds could be repaid within a few years; they will have to be on a long-term, low-interest basis. In most cases, the lack of these funds is probably not a matter of life and death this week, but that time is probably not many months away. And the total sums in question for this year are not immense. I doubt that it will ultimately be decided that a large amount is appropriate in this calendar year from all sources in new forms of aid above those traditional forms of aid already scheduled.

Still, there is an organizational urgency in reaching a consensus on some analysis of the factual situation in these countries and in insuring that there is an adequate response from those countries of the world who are in a more-favored position.

Some of the oil-producing countries have begun to respond with isolated bilateral arrangements. There have also been appeals for funds by the UN and discussions of various possible joint initiatives by some of the oil exporters, but little has actually been committed at this time specifically to alleviate the near-term distress of the "most seriously affected".

The oil producers have agreed to purchase additional amounts of World Bank bonds and to lend about $3 billion to the IMF, but these investments are at approximately market terms and are effectively guaranteed as to repayment by the major developed nations, including the U.S. They do not represent provision of the concessional funds appropriate for the "most seriously affected".

For them, the rescue operation, in large part, remains to be organized. For this purpose, it may well be that no new financial institution is needed; but there must be a group which is charged with being sure the job gets done. For this purpose, I am placing great hope on the new ministerial development council to be set up along C-20 lines, in accordance with a decision taken by the Ministers when they were in Washington last month for the final C-20 Meeting. I certainly hope that this new group representing oil producers and oil consumers, both developed and less developed, will be small enough to function effectively and will have the competence and the conscience for the job.

22

The problems which that new council will face and the problems which all of us face with the new oil prices are real. The appropriate remedy is to lower those prices. Meanwhile, we must cooperate internationally to mitigate the real problems as much as we can. If we continue that cooperation, if we stay alert, those real problems will not be made worse by any freezing-up of the world's financial mechanisms.

Thank you.

oOo

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

23

FOR RELEASE AT 11:30 A.M., EDT
TUESDAY, JULY 9, 1974

ADDRESS
BY
THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
TO THE NATIONAL CHAMBER OF COMMERCE CONFERENCE ON
"ELECTING AN INFLATION-PROOF CONGRESS IN 1974"
WASHINGTON, D. C.
TUESDAY, JULY 9, 1974

No one will be surprised when I express strong support for the goal of this Conference -- to elect an inflation-proof Congress in 1974. Since my first day as Secretary of the Treasury I have been hammering away at the point that inflation is our number one economic problem.

The inflation we have experienced has gone on so long and become so intense that it has done damage to every sector of our society. It has hurt everybody -- people at all income levels, corporations, financial institutions, local governments -- everybody. But most of all, it has hurt the poor.

But while the damage done by inflation is clear enough, it is not going to be easy to bring it under control. And that brings me to the aspect of this

WS-53

conference I particularly like, and that is your focus on the political dimension of inflation. I don't mean politics in the partisan, how-do-we-get-elected sense, but in terms of Government leaders of whatever political persuasion representing and responding to the will of their constituents. Inflation is not just an economic problem, it is a political problem as well. In fact, the biggest worry I have about our economic future is whether or not the American people and their Government will have the sustained political will to carry this long, tough anti-inflation battle through to a successful conclusion.

The Origins of Inflation

The industrialized democracies of the world have all suffered an horrendous bout of inflation over the past decade -- the United States less than most (although I take little comfort from that fact). I think it is fair to conclude that in almost every case a major cause of the inflation was political.

In saying that, I do not mean to imply that inflation is a simple matter, with only the single dimension of government economic policy. Inflation is a complex process with many causes. For example, we are all aware of the series of outside shocks that hit our price level during the past two years.

24

- World production of wheat and coarse grains declined a disastrous 3 1/2 percent in 1972, which resulted in a 36 percent increase in farm prices and a 20 percent increase in consumer food prices during 1973.
- Every industralized nation in the world experienced strong growth in 1973, and this unusual simultaneity put strong pressure on all internationally-traded raw materials. In the United States, wholesale prices of crude materials, excluding food, increased 31 percent during 1973.
- The devaluations of the dollar made the food and industrial raw material price explosion even worse, because the United States suddenly became the most favorable place for other nations to obtain those hard-to-get raw materials. This was good news for our international trade position, but it put substantial additional pressure on domestic prices.
- At the end of 1973, the Arab nations quadrupled the price of crude oil, which put great pressure on the prices of almost

all goods and services produced in the United States.

- The end of wage and price controls just two months ago has added the predictable burst of price pressures to the current situation.

All of those forces, however, are one-time events. While they are with us, they have an enormous influence on the general price level. For the most part, however, it is a temporary influence. And when these special forces have passed -- and most are in the phase-out stage now -- we find that the problem of inflation is still with us, almost as strong as ever. At the end of this year, after the food and fuel and other special factors have receded, our price level will probably still be rising by something in the neighborhood of 7 1/2 percent per year.

And the reason we still find such an horrendous rate of inflation in the system after the special factors have run their course is that the American people and their government have been making the political decisions that have brought it about. We have increased Government spending faster than we have been willing to pay for it through taxation. We have created too much new money and credit, so that more borrowing and investment have taken place

25

than could be financed out of savings. By those actions we permitted, encouraged, and even forced the demand for goods and services to outrun the productive capacity of our economy. The inevitable result was inflation.

What this boils down to is that our economic reach has been greater than our grasp of how the economy works. Our eyes have been bigger than our stomach. We have not learned that the standard of living in an economy cannot grow more rapidly than productivity. We do not want to accept the idea that resources are scarce and that if we make a decision to give more to some people in the society we are at the same time deciding to take those resources away from somebody else. Moreover, if we do not make the take-away decision explicitly -- by cutting Federal spending elsewhere, for example -- we do not escape that decision. It is accomplished instead by the tax of inflation.

My basic point is that in making many of the decisions that are so crucially important for inflation we act through our political system. It is a political decision whether or not a government spending program is accelerated or throttled back. It is a political decision whether or not taxes are raised or lowered. It is a political decision whether or not we use a Federal program to funnel cheap credit to special sectors of the economy. And for too many years now, too many of these political decisions have been going the wrong way. From a political point of view, it is always easier to spend than to tax. From an economic point of view, that excessive spending levies the cruelest and most indiscriminate tax of all -- inflation.

The Cure

The correction of the inflation problem is every bit as difficult and complex as the inflation itself. There are no simple, quick solutions. Back in 1971, some of us thought there might be, but now that controls have had their try we know better.

No, if we are to lick this inflation, we will have to go back to fundamentals. One such fundamental is more savings and investment. As I mentioned earlier, the demands of the American people go far beyond the capacity of the economy. It is of vital importance, therefore, that we continue, and accelerate if we can, the upward trend of productivity. And that will take a very large volume of savings and investment.

It is no accident that economies, such as Japan or Germany, that devote a large proportion of their output to capital formation have also experienced rapid gains in output per man-hour. By contrast, the United States has put a rather small share of its output into new plant and equipment -- about 15 percent versus an average of about 19 percent in the other industrialized nations -- and we have also had a much slower rate of productivity advance. The need for emphasizing capital formation should be clear.

In addition, however, there are important new investment requirements that go beyond the normal needs to replace and expand the existing stock of productive capital. There are many of these new investment requirements, including pollution control, new systems of urban transportation, and energy. The latter is the most important by far. Project Independence is estimated to take from three-quarters to one trillion dollars of new investment over the next decade or so. In recent years energy has accounted for about one-fifth of total investment; in the foreseeable future, however, that proportion will have to rise to about one-third.

It is clear, therefore, that our future needs for saving and investment represent an enormous challenge above and beyond what is normal for the American economy. Indeed, investment will have to take a rising share of economic output at the expense of consumption and government spending.

To do this, we will have to make several important changes in our policies. First, Government spending will have to be curbed to make economic room for the added investment. Second, profits will have to grow to provide both the incentive and the wherewithal for investment. We cannot look upon profits as an unnecessary evil, as I fear so many Americans now do. We must avoid legislation and regulation that is punitive of profits honestly earned. If we do not, capital formation will be inhibited and the real purchasing power of workers' earnings will grow more slowly.

Third, we must reverse our long-held policies that penalize saving and 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. And we should 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.

That Old-Time Religion

Another fundamental part of the fight against inflation is what has come to be called "that old-time religion," the essence of which is sufficient monetary and fiscal restraint to keep the demands for economic output within our capacity to meet them. Indeed, if we are to squeeze out the high rate of inflation that is now thoroughly embedded in our system, we will have to operate with a margin of slack in the economy.

This does not mean that economic policy should be harsh and brutal. Not at all. A recession would not help the cause of price stability -- quite the contrary, because a recession would force us back into strongly stimulative policies that in the end would create still more inflation.

Frequent and abrupt changes in economic policy are almost as disastrous as no restraint at all.

Still, that old-time religion has its costs. We will have to take some unpleasant-tasting medicine, and we will have to continue to take it for several years or longer. We will have to give up some government spending programs, and unless growth in Federal spending can be cut back appreciably we will have to forego the pleasures of a tax cut. Credit will have to be less easily available. Business profits cannot grow quite so buoyantly. Unemployment will have to average slightly higher than it otherwise would.

These are not negligible costs. But if we are to regain control over inflation, there is no other way. The costs of continued rapid inflation, which is the only alternative, are far greater.

And that brings us back to politics again. I said at the outset of this talk that my biggest worry was whether the American people and their Government would have the sustained political will for this fight. I think there is more hope now than ever before. The double-digit inflation of this past year has frightened many people, and made them more willing to support tough anti-inflation policies. Good economics is getting to be good politics.

28

But my question has not been answered yet. We do not know if the people and their elected representatives want to attack the root causes of inflation, rather than just the results of inflation. We do not know if they will face up to the costs of anti-inflation policies. We do not know if they will assess these costs -- as I do -- as being much smaller than the costs of continued rapid inflation. If we can persuade them of this, then we will have gone a long way toward achieving the important goal of electing an inflation-proof Congress in 1974.

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

29

FOR IMMEDIATE RELEASE July 9, 1974

SIMON TO LEAD HIGH-LEVEL DELEGATION
TO MID EAST AND EUROPE

Secretary of the Treasury William E. Simon announced today that he will lead a high-level economic delegation to Egypt, Israel, Saudi Arabia and Kuwait, followed by meetings with the finance ministers in Germany, France and England.

It will be his first mission abroad as Treasury Secretary.

Simon will be accompanied by Under Secretary Jack F. Bennett, Assistant Secretary Gerald L. Parsky, and key officials from the State, Treasury, Commerce and Agriculture Departments and AID.

Simon's visit to Egypt is being made at the President's request, pursuant to the Declaration of Principles signed by Presidents Nixon and Sadat on June 14, and will add to the growing dialogue with that country. "I have every confidence," Simon said, "that we can make a viable and lasting contribution in assisting the Egyptians in their quest for rapid economic development and in further developing mutually advantageous economic relations between Egypt and the U.S."

Simon's trip to Israel is a result of the June 17 U.S.-Israeli joint statement issued during President Nixon's visit to Israel. It will include meetings with Prime Minister Rabin and other high government officials, and explore ways of strengthening and developing further the framework of bilateral economic relations.

"Our visit to Saudi Arabia is a follow-up to Prince Fahd's June visit to the U.S. when we established the Joint U.S.-Saudi Commission on Economic Cooperation, and will continue our effort to cooperate in the areas of: industrialization, manpower and education, science and technology, and agriculture," Simon stated. Simon is the U.S. Chairman of this commission, and Mr. Parsky is its Executive Secretary.

"Through the Joint Commission we will be working in concert with key Saudi economic policy officials to assist them in diversifying their economy," Simon stated.

(MORE)

WS-55

The Middle East portion of Secretary Simon's trip will conclude with a visit to Kuwait, where he will exchange views with Kuwaiti officials on global economic, financial and energy matters in consideration of the significant role Kuwait plays, not only in oil affairs, but also as a contributor to international monetary stability, and as one of the most rapidly growing business and industrial centers in this extremely important area.

The Treasury Secretary departs from Washington on Thursday, July 11, and will return on Saturday, July 27.

oOo

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

30

FOR IMMEDIATE RELEASE July 9, 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 July 18, 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 April 18, 1974, and to mature October 17, 1974 (CUSIP No. 912793 UU8), originally issued in the amount of $1,804,175,000 (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 July 18, 1974, and to mature January 16, 1975 (CUSIP No. 912793 VR4).

The bills will be issued for cash and in exchange for Treasury bills maturing July 18, 1974, outstanding in the amount of $4,314,475,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,373,975,000. 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 15, 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 July 18, 1974, in cash or other immediately available funds or in a like face amount of Treasury bills maturing July 18, 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

31

FOR RELEASE ON DELIVERY

STATEMENT BY EDWARD C. SCHMULTS
UNDER SECRETARY OF THE TREASURY
BEFORE THE LEGISLATION AND MILITARY OPERATIONS SUBCOMMITTEE
OF THE HOUSE COMMITTEE ON GOVERNMENT OPERATIONS
JULY 10, 1974

Mr. Chairman and Distinguished Members of the Subcommittee:

I am appearing before you today in response to your invitation that I present a statement on behalf of the Department of the Treasury concerning Reorganization Plan No. 2, 1973, and the recent study by the Office of Management and Budget which was initiated to improve the interdiction of contraband and aliens along our common border with Mexico. With me today is Commissioner of Customs Acree. Commissioner Acree has a prepared statement which he will offer after the Committee has finished hearing my testimony.

One of the purposes of Reorganization Plan No. 2 was to provide a more effective and unified effort in the control

WS-56

of illicit drugs in the United States. One of the major geographical areas where illicit drugs enter the United States is our common border with Mexico. The Office of Management and Budget initiated a study in December of 1973 with the objective of obtaining more effective law enforcement control along our southern land border. The Treasury Department was happy to participate in a comprehensive study of the problem since we wish also to promote the most efficient use of the existing resources and special skills of the Federal agencies situated along the border. The U.S. Customs Service and the Treasury Department were fully involved in the study and provided our suggestions and comments on the alternative proposals and made specific recommendations of our own.

Given the existing statutory and regulatory authorities, our basic proposal to the OMB study team was to retain all Federal agencies presently operating on the border and for them to operate in what appeared to us to be the most effective manner. I understand your Committee has been given copies of the materials prepared by the Treasury Department, including our specific proposals. It is fairly

32

common in the United States to have different law enforcement agencies operating in the same geographical area and we felt our proposal would maximize enforcement efficiency and effectiveness and minimize the disruption of personnel, property and statutory authority.

We are obviously disappointed in the outcome of the OMB study. However, the Treasury Department has accepted the results and feels that the proposal is a workable one. It will help eliminate any unproductive competition among Federal agencies and should improve the overall border enforcement effort. The Treasury Department and the U.S. Customs Service will continue to cooperate with the Immigration and Naturalization Service and the Drug Enforcement Administration since we feel that, although the specific missions of these various law enforcement agencies differ, their overall purpose is to provide effective law enforcement.

It is our intention to begin preparation of various operating agreements that will provide the basis for the Border Patrol's authority to conduct contraband interdiction between the ports of entry along the Mexican border. We will also continue to improve our relationship with DEA through operating agreements to include the exchange of information and also to promote cooperation between the agencies in conducting specific cases.

Through our combined efforts I believe we will attain a border that is more secure. This concludes my prepared statement and I would be happy to answer any questions you may have.

33

FOR RELEASE ON DELIVERY

STATEMENT BY THE HONORABLE VERNON D. ACREE
COMMISSIONER OF CUSTOMS
BEFORE THE LEGISLATION AND MILITARY OPERATIONS SUBCOMMITTEE
OF THE HOUSE COMMITTEE ON GOVERNMENT OPERATIONS
JULY 10, 1974

Mr. Chairman and Members of the Subcommittee

I am appearing before your subcommittee today in response to your invitation that I present a statement in connection with your review of Reorganization Plan No. 2 of 1973 and the results of the related study recently released by the Office of Management and Budget.

The Secretary of the Treasury and the Customs Service have been responsible since 1789 for the enforcement of all provisions of the Customs laws, many of the navigation laws and, within the last 50 years, the air commerce laws, in addition to the enforcement of more than 200 laws for approximately 40 other Federal agencies.

Late in 1973, following the announcement of Reorganization Plan No. 2, the Office of Management and Budget conducted a study regarding enforcement of drug and other contraband interdiction along the Mexican border. Customs presented to OMB its recommended strategy for covering these problems, which was based on its on-going operations. At the Committee's request, we have furnished the Committee copies of our concept.

The Office of Management and Budget examined our operation in the light of alternative proposals. They did not select ours. The concept they did choose was announced publicly and has been communicated to you in detail.

In general, the study concluded that the Immigration and Naturalization Service should be responsible for interdiction of drugs and other contraband <u>between</u> ports of entry on the Mexican border, while Customs acts as single-agency manager <u>at</u> the ports of entry. Customs also has been designated as the lead agency to continue the air interdiction program that it has developed.

Naturally, we were disappointed that our strategy was not adopted by OMB, and that the performance of our Customs Patrol Officers did not, in OMB's view, justify their continuation at their locations along the border. We thought our border operation was better than alternative plans offered by others. The Customs Service, however, is a professional law enforcement agency. We will try to the best of our ability to make the organizational realignment and new procedures work.

This concludes my formal statement. I will be happy to answer any questions you may have or to supply any additional information you desire.

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

35

FOR IMMEDIATE RELEASE July 11, 1974

Secretary of the Treasury, William E. Simon, today announced designation of John A. Bushnell as Deputy Assistant Secretary for Developing Nations Finance in the Office of the Assistant Secretary for International Affairs. He succeeds Richard F. Larsen.

The responsibility of Mr. Bushnell will be primarily within the area of development assistance, focusing on U. S. relations with the multilateral lending institutions.

Mr. Bushnell has served with distinction as a Foreign Service Officer in the Department of State since 1959. He has been detailed to the National Security Council since 1971 and will now be on detail at Treasury.

Mr. Bushnell was the recipient of The Merit Honor Award in 1967, and the William R. Rivkin Award in 1968.

He was born in 1933 in New York City, New York, and holds degrees from Yale University and the University of Melbourne.

He is married to the former Ann Morel. They have three children: John, Mark, and Timothy.

oOo

WS-57

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

3C

FOR IMMEDIATE RELEASE July 11, 1974

Secretary of the Treasury, William E. Simon, today announced his intention to appoint Richard F. Larsen as Special Assistant to the Secretary. This is a new position.

Dr. Larsen, who has been serving as Deputy Assistant Secretary for Developing Nations Finance since February 1973, will work on coordination of Treasury operations in the areas of domestic and international capital and natural resource management. Previously Dr. Larsen served as Lieutenant Governor of North Dakota and in his new position is expected to develop closer working relations between the U. S. Treasury and those multi-state and state government units concerned with resource utilization and planning.

Larsen, 37, is married to the former Christine Ellen Frawley of New York City, has two children and lives in Bethesda, Maryland.

oOo

WS-58

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

37

FOR IMMEDIATE RELEASE July 11, 1974

ANTIDUMPING INVESTIGATION INITIATED
ON CHICKEN EGGS IN THE SHELL
FROM CANADA

Assistant Secretary of the Treasury David R. Macdonald announced today the initiation of an antidumping investigation on imports of chicken eggs in the shell from Canada.

Notice of this action will be published in the Federal Register of July 12, 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 chicken eggs in the shell from Canada were valued at approximately $4,700,000.

38

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

FOR IMMEDIATE RELEASE July 11, 1974

PROGRESS NOTED IN EXPORT CREDIT DISCUSSION

Progress was reported today at the conclusion of a two-day meeting here in discussion of a gentlemen's agreement on export credits among representatives of the nine member countries and the Commission of the European Communities, Japan and the United States. Representatives of Canada attended as observers.

The purpose of the meeting, which followed other meetings in Europe, was to pursue the possibility of establishing minimum interest rates and maximum lengths on officially supported export credits. Certain other terms and conditions of export credit were also mentioned for further discussion.

All delegations expressed the desire to conclude a gentlemen's agreement as soon as possible. They observed that the discussions in Washington had made it possible to establish a consensus on the framework of such an agreement and to clarify a limited number of problems in which delegations need to consult their governments in order to reach a final conclusion. It was agreed the discussions would be resumed in September.

oOo

WS-59

FEDERAL FINANCING BANK, WASHINGTON, D.C.

FOR IMMEDIATE RELEASE July 11, 1974

FEDERAL FINANCING BANK BILL OFFERING

The Federal Financing Bank today announced its first borrowing from the public.

The Federal Financing Bank is an instrumentality of the United States Government and its obligations are general obligations of the United States, identical in this respect to Treasury obligations.

With the approval of the Secretary of the Treasury, the Bank is inviting bids for $1.5 billion of discount bills to mature March 31, 1975. The bills, which will have the characteristics of Treasury bills and will be sold in the same way, will be auctioned on July 23 for delivery on July 30. Commercial banks may make payments for their own and their customers' accepted tenders by crediting Treasury tax and loan accounts.

Jack F. Bennett, President of the Bank and Under Secretary of the Treasury for Monetary Affairs, noted that the maturity date of the Bank's bills corresponds with a maturity date in Treasury's 2-year cycle. Consequently, at maturity, these securities could be refunded by an issue of 2-year notes at that time either through Treasury or the Federal Financing Bank.

The Bank was created by the Act of December 29, 1973, to consolidate the market financing of other Federal agencies. It made its first loan on May 24, 1974, and by July 30 it will have $1.4 billion of loans outstanding, all of which will have been financed by borrowing from the Treasury. The proceeds of the public borrowing announced today will be used to pay off the borrowing from the Treasury.

There are attached brief descriptions of the Federal Financing Bank and the characteristics of its bills, and a formal opinion of the Attorney General of the United States concluding that "the obligations of the Bank will be general obligations of the United States backed by its full faith and credit."

CHARACTERISTICS OF FEDERAL FINANCING BANK BILLS

Public Law 93-224 established the Federal Financing Bank under the general direction and supervision of the Secretary of the Treasury. The purpose of the Bank is to consolidate the market financing of other Federal agencies.

The Bank may purchase obligations issued, sold, or guaranteed by any Federal agency. To finance such purchases the Bank may issue obligations in the market or to the Secretary of the Treasury. The authority of the Bank to borrow from the Secretary of the Treasury assures the immediate availability of any funds required for timely payment by the Bank of principal and interest on obligations issued in the market.

Obligations issued in the market by the Bank are obligations of the United States issued with the approval of the Secretary of the Treasury. Federal Financing Bank bills are

-- Available in bearer or book-entry form.

-- Exempt from State and local taxation to the same extent as Treasury securities.

-- Lawful investments and may be accepted as security for all fiduciary, trust and public funds (including Treasury tax and loan accounts), the investment or deposit of which is under the authority of any officer of the United States or of the District of Columbia, the Commonwealth of Puerto Rico, or any territory or possession of the United States.

-- Eligible as collateral for Federal Reserve Bank advances.

-- Eligible for Federal Reserve Bank open market purchases.

-- Payable at Federal Reserve Banks or at the Treasury.

-- Eligible for denominational exchanges at Federal Reserve Banks or the Bureau of the Public Debt of the Treasury.

-- Eligible for conversion to book-entry at Federal Reserve Banks.

-- Eligible for Federal Reserve Bank wire transfer.

-- Eligible for relief in the event of loss, theft, or destruction in the same manner as Treasury securities.

-- Eligible for purchase by national banks without restriction.

-- Eligible for investment by Federal savings and loan associations, Federal credit unions, and small business investment companies.

ORGANIZATION OF THE FEDERAL FINANCING BANK

The Federal Financing Bank was created by the Federal Financing Bank Act of 1973, approved December 29, 1973, (P.L. 93-224, 87 Stat. 93) as an instrumentality of the United States subject to the general direction and supervision of the Secretary of the Treasury. The purpose of the Bank is to consolidate the market financing of other Federal agencies. The Bank is authorized under the Act to purchase any obligations issued, sold, or guaranteed by any Federal agency, and to finance such purchases by issuing its own obligations in the market or to the Secretary of the Treasury.

The Secretary of the Treasury is Chairman of the Board, and the Under Secretary of the Treasury for Monetary Affairs is its President.

BOARD OF DIRECTORS

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

OFFICERS

President	-	Under Secretary of the Treasury for Monetary Affairs
General Counsel	-	General Counsel of the Treasury
Vice President & Treasurer	-	Fiscal Assistant Secretary of the Treasury
Vice President	-	Special Assistant to the Secretary of the Treasury (Debt Management)
Secretary	-	Assistant to the Special Assistant to the Secretary of the Treasury (Debt Management)

41

Office of the Attorney General
Washington, D.C.

JUL 3 1974

Honorable William E. Simon
The Secretary of the Treasury
Washington, D. C. 20220

My dear Mr. Secretary:

You have requested my opinion as to whether obligations to be issued by the Federal Financing Bank will be backed by the full faith and credit of the United States.

The Bank was created by the Federal Financing Bank Act of 1973, P.L. 93-224, 87 Stat. 937 to assure coordination of Federal and federally assisted borrowing programs. It is a government instrumentality subject to the general supervision and direction of the Secretary of the Treasury.

Congress has specifically authorized the Bank to issue obligations to the public in amounts not in excess of $15,000,000,000 or such additional amounts as may be authorized in appropriations acts. 87 Stat. 939. In addition, the Bank may issue obligations to the Secretar of the Treasury and the latter may in his discretion purchase any such obligations. Aside from the Secretary's discretionary purchases, moreover, the Bank may require him to purchase its obligations in amounts that will not at any time cause his holdings from required purchases to exceed $5,000,000,000.

Nowhere in the legislation is it expressly stated that the full faith and credit of the United States is pledged to the obligations issued by the Bank. However, an extensive series of opinions of Attorneys General of the United States has established that such language is not necessary to a pledge of full faith and credit. It is enough to create an obligation of the United States if an agency or officer is validly authorized to incur such an obligation on its behalf and validly exercises that power. _E.g._, 42 Op.A.G. No. 30; 42 Op.A.G. No. 1; 41 Op.A.G. 403; 41 Op.A.G. 363.

In sum, I am of the opinion that if issued within the monetary limits of the Act and in accordance with its other provisions, the obligations of the Bank will

42

be general obligations of the United States backed by its full faith and credit.

Sincerely,

Wm B Saxbe

William B. Saxbe
Attorney General

FEDERAL FINANCING BANK, WASHINGTON, D. C.

43

FOR IMMEDIATE RELEASE July 11, 1974

FEDERAL FINANCING BANK BILL OFFERING

The Federal Financing Bank, with the approval of the Secretary of the Treasury, by this public notice invites tenders for $1,500,000,000, or thereabouts, of 244-day Federal Financing Bank bills to be dated July 30, 1974, and to mature March 31, 1975 (CUSIP No. 313322 AA7).

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 and book-entry forms only, and in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Tuesday, July 23, 1974. Tenders will not be received at the Federal Financing Bank in Washington, D. C. 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.

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 bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

All bidders are required to agree not to purchase or to sell, or to make any agreements with respect to the purchase or sale or other disposition of any bills bid for under this offering at a specific rate or price, until after one-thirty p.m., Eastern Daylight Saving time, Tuesday, July 23, 1974.

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 Federal Financing Bank of the amount and price range of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Federal Financing Bank expressly reserves the right to accept or reject any or all tenders, in whole or in part, and its action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $300,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on July 30, 1974, in cash or other immediately available funds. Any qualified depositary will be permitted to make settlement by credit in its Treasury Tax and Loan Account for bills allotted to it for itself and its customers.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954, the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of 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.

This offering is made pursuant to Federal Financing Bank Circular No. 1-74. 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

44

MEMO FOR CORRESPONDENTS: July 12,1974

The following amendments to the Cuban Assets Control Regulations are published to comply with the Freedom of Information Act. This is a compilation of previously published documents and does not contain new policies.

45

Title 31—Money and Finance: Treasury

CHAPTER V—OFFICE OF FOREIGN ASSETS CONTROL, DEPARTMENT OF THE TREASURY

PART 515—CUBAN ASSETS CONTROL REGULATIONS

Interpretations and Licensing Policy Statements.

Subpart D is being amended to add current administrative interpretations of the regulations which have not previously been published in the FEDERAL REGISTER. Subpart E is being amended to include current statements of licensing policy. These licensing policy statements have not previously been published in the FEDERAL REGISTER except for the policy statement in § 515.555 which was published October 7, 1965, 30 FR 12812. The statements in §§ 515.544, 515.552, 515.557 and 515.558 have previously been available to the public in the form of Public Documents. They and § 515.555 are being amended for the purpose of clarification.

Subpart D is hereby amended by the addition of §§ 515.410, 515.411, 515.412, 515.413 and 515.414 to read as follows:

§ 515.410 Dealing abroad in Cuban origin commodities.

Section 515.204 prohibits, unless licensed, the importation of commodities of Cuban origin. It also prohibits, unless licensed, persons subject to the jurisdiction of the United States from purchasing, transporting or otherwise dealing in commodities of Cuban origin which are outside the United States.

§ 515.411 Exclusion from authorization in § 515.518.

Heirs, legatees, etc. who acquire an interest in blocked property after July 8, 1963 pursuant to § 515.525 are excluded from the provisions of § 515.518 authorizing debits to blocked accounts for certain personal expenditures.

§ 515.412 American-owned foreign firms: duties of U.S. Citizen officers and directors.

A general license in § 515.541 authorizes American-controlled firms located in the authorized trade territory (see § 515.322) and doing a non-banking business to engage in certain transactions with Cuba or its nationals without a specific license. However, this section does not authorize United States citizens who are officers, directors, or principal managerial personnel of such firms to engage, participate or be involved in transactions with Cuba; nor does it authorize such persons to allow firms which they control to engage in prohibited transactions with Cuba or its nationals. Such persons are regarded as being involved in prohibited transactions when they set policy to permit the foreign firm to engage in such transactions even if they do not themselves actively engage in such transactions.

§ 515.413 Furnishing technical advice to American-owned foreign firms.

Section 515.201 of the regulations does not prohibit an engineering firm in the United States from providing technical assistance to a person in a third country with respect to specifications, quality control, etc., although such advice may result in purchases by that third country person of goods of Cuban origin. The fact that the engineering firm is not within the scope of the license in Section 515.541 does not preclude such advice. However, the engineering firm may not itself procure any such goods for its own account or for that of the foreign person.

§ 515.414 Foreign branches of U.S. firm within the scope of § 515.541.

The provisions of § 515.541 are applicable to foreign branches of a U.S. firm.

Subpart E is hereby amended by changing the caption to read "Licenses, Authorizations, and Statements of Licensing Policy", and by adding §§ 515.543 through 515.558. The amended caption and the statements of licensing policy read as follows:

Subpart E—Licenses, Authorizations, and Statements of Licensing Policy

§ 515.543 Proof of origin.

Specific licenses for importation of goods of Cuban origin are generally not issued unless the applicant submits satisfactory documentary proof of the location of the goods outside Cuba prior to July 8, 1963 and of the absence of any Cuban interest in the goods at all times on or since that date. Since the type of document which would constitute satisfactory proof varies depending upon the facts of the particular case, it is not possible to state in advance the type of documents required. However, it has been found that affidavits, statements, invoices, and other documents prepared by manufacturers, processors, sellers or shippers cannot be relied on and are therefore not by themselves accepted by the Office of Foreign Assets Control as satisfactory proof of origin. Independent corroborating documentary evidence, such as insurance documents, bills of lading, etc., may be accepted as satisfactory proof.

(a) Except as stated in paragraph (b) of this section, specific licenses are not issued for the importation of Cuban-origin goods sent as gifts to persons in the United States or acquired abroad as gifts by persons entering the United States. However, licenses are issued upon request for the return of such goods to the donors in countries other than Cuba.

(b) Specific licenses are issued for the importation directly from Cuba (1) of goods which are claimed by the importer

4C

to have been sent as a bona fide gift and (2) of goods which are imported by a person entering the U.S., which are claimed to have been acquired in Cuba as a bona fide gift, subject to the conditions that:

(i) The goods are of small value, and

(ii) There is no reason to believe that there is, or has been since July 8, 1963, any direct or indirect financial or commerical benefit to Cuba or nationals thereof from the importation.

§ 515.545 Books and other publications, films, phonograph records, tapes, photographs, microfilm, microfiche and posters of Cuban origin.

(a) *Imports for educational and research purposes.* (1) Specific licenses are issued for the purchase and importation of Cuban-origin books and other publications, films, phonograph records, tapes, photographs, microfilm, microfiche and posters by universities, libraries, research and scientific institutions without restriction as to method of payment, or on an exchange basis, provided such materials are for specific educational or research programs of such institutions which are approved by the Librarian of Congress or the National Science Foundation.

(2) Specific licenses are issued to scholars holding U.S. passports validated for travel to Cuba authorizing: Payment of expenses for travel to and from, and maintenance within, Cuba for the purpose of study and research; and, the acquisition in Cuba by such scholars and importation into the U.S., without restriction as to manner of payment, of Cuban-origin books and other publications, films, phonograph records, tapes, photographs, microfilm, microfiche and posters necessary to their research, provided that a validated U.S. passport is presented to Customs at the time of importation.

(b) *Imports for commercial purposes.* Specific licenses are issued for the importation for commercial purposes of any Cuban-origin books or other publications, films, phonograph records, tapes, photographs, microfilm, microfiche and posters provided that such payment for such materials is made by the licensee by deposit into a blocked account in a domestic bank in the name of the Cuban seller; that the bank confirms to the Office of Foreign Assets Control that the account has been designated as a blocked account on its books; and that reports of any such imports and deposits are made by the licensee. Reports are required to contain the following information:

(1) Port of importation and of exportation,

(2) Name and address of importer of record,

(3) Name and address of buyer,

(4) Type of materials, i.e. books, magazines, newspapers, films, etc.,

(5) Quantity and value of materials imported,

(6) Statement of all sales of materials imported, showing the number sold, the amounts deposited in blocked accounts and the name and address of the domestic banks where the accounts.

(c) *Imports of Cuban publications, etc. as bona-fide gifts.* See § 515.544(b).

§ 515.546 News material from Cuba.

(a) *Imports by newsgathering agencies.* Specific licenses are issued for the purchase and importation of Cuban-origin newspapers, magazines, photographs, films, tapes, and other news material or copies thereof by newsgathering agencies in the United States without restriction as to method of payment, provided such materials are imported for domestic news publication or news broadcast dissemination.

(b) *News material acquired in Cuba by journalists and news correspondents.* (1) Specific licenses are issued to journalists and news correspondents holding U.S. passports validated for travel to Cuba authorizing (i) payment of expenses for travel to and from, and maintenance within, Cuba for the purpose of gathering and transmitting news to the United States; and (ii) the acquisition in Cuba for transmission to and importation into the United States of newspapers, magazines, photographs, films, tapes and other news material, or copies thereof, necessary for their journalistic assignments.

(2) A condition of the license is that a United States passport validated for travel to Cuba must be presented to Customs at the time of importation.

§ 515.547. Research samples.

Specific licenses are issued for importation of Cuban-origin commodities for bona-fide research purposes in sample quantities only.

§ 515.548. Services rendered by Cuba to United States aircraft.

Specific licenses are issued for payment to Cuba of charges for services rendered by Cuba in connection with overflights of Cuba or emergency landings in Cuba, of private, commercial or government-owned United States aircraft, *provided*, That payment is made to Cuba through the Department of State and not through a commercial bank.

§ 515.549. Bank accounts and other property of non-Cuban citizens who were in Cuba on or after July 8, 1963.

(a) *Citizens of foreign countries.* Specific licenses are issued unblocking the accounts and other property of non-Cuban citizens who have left Cuba, provided that they submit evidence satisfactorily demonstrating that they have established residence in a foreign country in the authorized trade territory.

(b) *Decedents who died in Cuba on or after July 8, 1963.* Specific licenses are issued authorizing the administration of the estates of non-Cuban decedents who died in Cuba, provided that any distribution to a blocked national of Cuba is made by deposit in a blocked account in a domestic bank in the name of the blocked national.

§ 515.550 Bank accounts in the name of a blocked Cuban decedent; payment to a non-blocked surviving spouse.

Specific licenses are issued unblocking up to 50 percent of an account of a blocked Cuban decedent where a non-blocked surviving spouse of such decedent claims beneficial ownership interest in a portion or all of a bank account held in the name of the decedent. This policy, which is an exception to the normal requirement of independent documentary proof of beneficial ownership, is based on the presumption of the existence of such interest in the non-blocked spouse on or since July 8, 1963, arising under the Cuban community property law.

§ 515.551 Joint bank accounts.

(a) Specific licenses are issued u[illegible]blocking a portion of or all of a joint bank account blocked by reason of the fact that one or more of the persons in whose names the account is held is a blocked national, where a non-blocked applicant claims beneficial ownership, as follows:

(1) *Joint bank account, without survivorship provisions.* Specific licenses are issued unblocking only that amount with respect to which the applicant is able to prove beneficial ownership by documentary evidence independent of his assertions of interest.

(2) *Joint bank account, with survivorship provision.* Specific licenses are issued unblocking an amount equivalent to that portion of the total amount to which the applicant would be entitled if the total were divided evenly among the persons in whose names the account is held (e.g. 50 percent where there are two names; 33⅓ percent where there are three names). Such licenses generally are issued on the basis of applicant's assertions of beneficial ownership interest without the requirement of independent evidence.

(3) *Joint bank account in the names of a husband and wife, with survivorship provision.* Specific licenses are issued unblocking portions of such accounts blocked by reason of the residence of one spouse in Cuba in favor of the non-blocked spouse under the policy stated in paragraph (c) (2) of this section. However, if 50 percent of the account has been unblocked under that policy, and the spouse who is the blocked Cuban national subsequently dies, a license unblocking one-half of the blocked balance is not issued to the surviving spouse under the policy relating to community property stated in § 515.550. A license would be issued for the unblocking of an additional amount only to the extent that the surviving spouse is able to establish by independent documentary evidence that it is his or her separate property, i.e. owned independently prior to the marriage and thus not part of the community property.

47

§ 515.552 **Proceeds of insurance policies.**

(a) Specific licenses are issued authorizing payment of a portion of the proceeds of a blocked life insurance policy issued on the life of a blocked Cuban national who died in Cuba after July 8, 1963, to non-blocked beneficiaries as follows:

(1) Payment may be licensed of a portion equal to the proportionate shares due the beneficiaries after deduction of an amount equal to the cash surrender value of the policy on the date of the insured's death, i.e. the value of the blocked insured's interest, subject to the condition that the amount deducted is deposited in a blocked account in a domestic bank in the name of the estate of the insured.

(2) As an alternative procedure at the option of the applicant, payment may be licensed of the total amount of the proceeds into a blocked amount in a domestic bank in the names of the beneficiaries, subject to the condition that the account is designated as blocked by reason of the interest of the deceased insured in the policy since July 8, 1963. Licenses may subsequently be issued authorizing payments from such blocked account to non-blocked beneficiaries provided that the balance remains equal to the cash surrender value of the policy on the date of the insured's death, and accrued interest.

(3) Where a non-blocked surviving spouse of the insured is a beneficiary, payments to such spouse are licensed pursuant to the procedures in paragraph (a) (1) and (2) of this section. In addition, licenses are issued authorizing payment of up to 50 percent of the cash surrender value under the policy stated in § 515.550.

(b) Where a blocked life insurance policy on the life of a blocked Cuban national who died in Cuba after July 8, 1963, provides for payment to the estate of the insured, licenses are not issued for payment except to a blocked account in a domestic bank in the name of the estate of the deceased insured.

§ 515.553 **Bank accounts of official representatives in Cuba of foreign governments.**

Specific licenses are issued authorizing payments from accounts of official representatives in Cuba of foreign governments for transactions which are not inconsistent with the purposes of any of the regulations in this chapter.

§ 515.554 **Transfers of abandoned property under State laws.**

(a) Except as stated in paragraph (b) of this section, specific licenses are not issued authorizing the transfer of blocked property to State agencies under State laws governing abandoned property.

(b) Specific licenses are issued authorizing the transfer of blocked property pursuant to the laws of the State governing abandoned property to the appropriate State agency provided that the State's laws are custodial in nature, i.e., there is no permanent transfer of beneficial interest to the State. Licenses require the property to be held by the State in accounts which are identified as blocked under the regulations. A separate index of these blocked assets is required to be maintained by the State agency.

§ 515.555 **Assets of Cuban firms wholly or substantially owned by U.S. citizens.**

(a) Specific licenses are issued to applicants requesting the unblocking of their stock in Cuban corporations if:

(1) The corporation was wholly or substantially owned by United States citizens on July 8, 1963;

(2) The assets are in the United States and either:

(3) The applicant is a stockholder who was a United States citizen on July 8, 1963 and owned the stock interests on that date; or,

(4) The applicant is a non-blocked person who acquired such stock interest after July 8, 1963 from a person specified in paragraph (a) (3) of this section.

(b) The issuance of licenses is conditioned on the applicant's furnishing the following information:

(1) Detailed information as to the status of all debts and other obligations of the Cuban corporation, specifying the citizenship and residence of each creditor as of July 8, 1963, and as of the date of filing of the application;

(2) Current status of the Cuban corporation, e.g., liquidated, nationalized, inoperative, etc.;

(3) A detailed description of all the corporation's assets, wherever located;

(4) A list of all officers, directors, and stockholders giving the citizenship and the residence of each such person as of July 8, 1963; and,

(5) Satisfactory proof that such stock was owned by U.S. citizens as of July 8, 1963. Such proof may consist of sworn statements by the persons in question attesting to their citizenship. The Office of Foreign Assets Control reserves the right to require additional proof of citizenship.

§ 515.556 **Accounts of Cuban citizens outside Cuba who resided in Cuba on or after July 8, 1963.**

Section 515.521 authorizes the release of $100 per month for living expenses from blocked accounts of Cuban citizens outside Cuba who resided in Cuba on or after July 8, 1963. This amount may be increased if the applicant is able to establish that such increase is reasonable and necessary.

§ 515.557 **Accounts of Cuban partnerships.**

Specific licenses are issued unblocking partnerships established under the laws of Cuba as follows:

(a) Where all of the general partners and limited partners, if any, have emigrated from Cuba and have established residence in the United States or in a country in the authorized trade territory, specific licenses are issued unblocking the assets of the partnership after deducting the total debt due creditors wherever located.

(b) Where one or more partners, whether general or limited, is still in Cuba (or elsewhere but still blocked), specific licenses are issued unblocking only the net pro-rata shares of those partners who are resident in the United States or in a country in the authorized trade territory after deducting the total debt due creditors wherever located.

(c) The issuance of licenses is conditioned on the applicant's furnishing the following information:

(1) Detailed information as to the status of all debts and other obligations of the blocked partnership, specifying the citizenship and residence of each creditor as of July 8, 1963, and as of the date of the application;

(2) Current status of the Cuban partnership, e.g., liquidated, nationalized, inoperative, etc.;

(3) A detailed description of all the partnership's assets, wherever located; and,

(4) A list of all partners, indicating whether they are general, limited, etc. and giving their citizenship and residence as of July 8, 1963, and as of the date of filing of the application.

§ 515.558 **Accounts of Cuban sole proprietorships.**

Specific licenses are issued unblocking sole proprietorships established under the laws of Cuba if the proprietor has emigrated from Cuba and established residence in the United States or a country in the authorized trade territory.

(Sec. 5, 40 Stat. 415, as amended, 50 U.S.C. App. 5; sec. 620(a), 75 Stat. 445, 22 U.S.C. 2370(a); Proc. 3447, 27 FR 1085, 3 CFR, 1959–1963 Comp.; E.O. 9193, July 6, 1942, 7 FR 5205, 3 CFR, Cum. Supp. p. 1174, E.O. 9989, Aug. 20, 1948, 13 FR 4891, 3 CFR 1943–1948 Comp., p. 748)

Effective date. This amendment of Part 515 shall become effective on July 10, 1974.

[SEAL] STANLEY L. SOMMERFIELD,
Acting Director,
Office of Foreign Assets Control.

[FR Doc.74-15673 Filed 7-9-74;8:45 am]

Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

48

FOR IMMEDIATE RELEASE JULY 12, 1974

Assistant Secretary of the Treasury David R. Macdonald today made the following comment on the European Community's decision to halt payments on cheese exports to the U.S. for 90 days.

"We are pleased with the Community's action. In the light of it, we intend to ask the U.S. District Court, District of Columbia, for a 90-day stay in the case pending there regarding payments on dairy product imports from the EC. This action by the Community is a very positive first step in resolving very complex issues that have arisen as a result of these payments and the countervailing duty investigation regarding dairy products now being conducted by the Treasury.

"Of course any reimposition of payments on dairy products by the EC would cause us to immediately reopen our inquiry."

0o0

WS-63

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

49

FOR IMMEDIATE RELEASE July 12, 1974

MS. SALLY S. RONK NAMED AS FINANCIAL ECONOMIST IN THE OFFICE OF DEBT ANALYSIS

The Treasury Department announced that Sally S. Ronk joined the Office of Debt Analysis as Financial Economist on July 1. Her responsibilities will include projections of the flow of funds -- a field in which she is nationally known -- as well as other areas of financial analysis. Among the latter will be responsibility for financial analysis of legislation regarding the structure of financial markets and regulation of financial institutions.

Ms. Ronk comes to the Treasury after three years as Vice President and Chief Economist of Drexel Firestone, Inc., later Drexel Burnham, Inc., a brokerage and investment banking firm. She was previously Vice President at Bankers Trust Company, New York, where she was in charge of analysis of developments in the financial markets.

She is a graduate of Smith College and holds M.B.A. and Ph.D.degrees from the graduate school of Business Administration of New York University. She is a fellow of the National Association of Business Economists and a member of the Council of the American Statistical Association, of the Board of Directors of the American Finance Association, of the Committee on Economic Stability of the Social Science Research Council, and of the Advisory Committee on Statistical Policy to the Office of Management and Budget. She has served on the Committee on Municipal Securities of the Securities Industry Association and is now serving as Finance Chairman of the Alumnae Association of Smith College.

0o0

WS-60

Department of the TREASURY

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

NEWS

FOR IMMEDIATE RELEASE July 13, 1974

SECRETARY SIMON'S ARRIVAL
STATEMENT IN CAIRO

"My wife and I are extremely pleased to be in Egypt. For both of us this is the first opportunity we have had to visit this country of such historic significance. Some look forward to seeing as much of your great nation and as many of your people as time will permit us. Though we are here to work, we both intend also to see some of your great historic monuments and treasures.

I should also say that my trip to Egypt is my first official visit to any country since becoming Secretary of the Treasury, and I am glad that my first appearance in that role on the international scene will take place in Egypt.

My visit to Egypt follows the announcement in the statement of principles of relations and cooperation between Egypt and the United States issued by President Sadat and President Nixon during our President's visit to Egypt last month. That announcement said I would come to Egypt for high level discussions to initiate the process of helping to strengthen the financial structure of Egypt, and that is the purpose of my visit.

I come here with a number of different topics for discussion and suggestions about ways in which we can work together. I have brought with me some of our own experts in fields that we anticipate may be of interest to Egypt, and they will be available to assist in our talks with your own officials.

In addition, however, I am also here to listen and to learn. I am anxious to hear from you how you think we can best be of help -- what you think needs to be done to strengthen your economy. I therefore am greatly looking forward to constructive discussions with President Sadat, Dr. Hegazi and other senior Egyptian officials to exchange views on ways and means of doing so.

Finally, let me express my pride at being able to take part in the continuing evolution of the relationship between Egypt and the United States. Our people have had a long history of friendship and understanding, and the ties between us have now been given

(OVER)

a new strength and impetus by the mutual efforts of your distinguished President and President Nixon, to bring peace to this whole area and to provide a better life to its people. Anything I can do by my efforts to further this immensely important development can only give me great satisfaction and hapiness."

oOo

Department of the TREASURY

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

NEWS

FOR IMMEDIATE RELEASE July 15, 1974

TREASURY ANNOUNCES
3 COUNTERVAILING DUTY ACTIONS

Assistant Secretary of the Treasury David R. Macdonald announced today the issuance of Countervailing Duty Proceeding Notices opening formal investigations into imports of non-rubber footwear from Argentina and Spain, and bottled olives from Spain.

The Notices state that the Treasury Department has received information which appears to indicate that the Argentine and Spanish Governments make certain payments, bestowals, rebates or refunds upon the manufacture, production or exportation of these products, which constitute the payment or bestowal of a "bounty or grant" within the meaning of the U. S. Countervailing Duty Law. If Treasury finds that a bounty or grant has been paid or bestowed, the imports in question would be subject to an additional "countervailing" duty equivalent to the net amount of the bounty or grant. The countervailing duty would become effective thirty days after publication of the order in the Customs Bulletin.

The Notice, which is being published in the July 16, 1974, Federal Register, invites submission of comments to be received within thirty days of publication.

During calendar year 1973 the approximate amount of imports of non-rubber footwear from Argentina were $16 million, and from Spain, $189 million. Bottled olive imports from Spain were approximately $38 million.

In making the announcement, Assistant Secretary Macdonald noted, "The administration of the Countervailing Duty Law is a mandatory procedure. The Secretary of the Treasury has no discretion to refrain from publishing a Proceeding Notice once he has found that a formal investigation is warranted. During the formal investigation of these cases the Treasury Department will continue to consider any matters brought to its attention, including matters which other governments may wish to make the subject of consultations, which have a bearing on the existence or non-existence or the extent of any bounty or grant.

(OVER)

"The ultimate purpose of the law is not to obtain tax revenue but to remove any unfair competition in the U. S. market between imports and domestic products. The most desirable result, in my opinion, would be the withdrawal by foreign countries of any bounties that may be paid upon their exports. If this occurred, we would never have to assess additional duties under the countervailing duty statute. In addition, the Trade Reform Act now under consideration by the Congress should enable us to negotiate multilaterally the elimination of subsidies and other non-tariff trade barriers and trade distorting measures, and thus improve the international trade framework and reduce the necessity for countervailing duty procedures."

0o0

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

FOR IMMEDIATE RELEASE 52 JULY 15,1974

TREASURY ISSUES HANDBOOK
FOR SPANISH-SPEAKING PROGRAM

The Treasury Department has issued a handbook for the Department-wide program for the employment of the Spanish-speaking, and has named a Departmental co-ordinator for the program, Warren F. Brecht, Assistant Secretary for Administration announced.

Directed to bureau heads and personnel officers throughout the country, the handbook's primary objective is to assure that persons of Spanish heritage have a fair opportunity for employment and advancement in the Department of the Treasury, Mr. Brecht said. "The handbook has been designed to bring together the primary materials, relating to this program, in a single publication which can be used for reference by managers, supervisors, and personnel and equal opportunity staffs in assuring equal opportunity for the Spanish-speaking," he added.

The handbook, additionally, will serve as a guideline and includes implementing techniques and examples for effective attainment of the Department's Affirmative Action Program for the Spanish-speaking.

The Departmental co-ordinator, who serves as an advisor to Treasury Secretary William E. Simon, and to the Director of the Department's Equal Employment Opportunity Program, Mr. Brecht, is John J. DeLeon of San Antonio, Texas. Mr. DeLeon previously was an equal opportunity and manpower specialist with AID and the Labor and State Departments, and with the Cabinet Committee on Opportunities for the Spanish-Speaking People.

oOo

WS-61

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

53

FOR RELEASE ON DELIVERY
MONDAY, JULY 15, 1974

STATEMENT BY THE HONORABLE EDWARD C. SCHMULTS
UNDER SECRETARY OF THE TREASURY
BEFORE THE COMMITTEE ON BANKING AND CURRENCY
OF THE HOUSE OF REPRESENTATIVES
MONDAY, JULY 15, 1974

Mr. Chairman and Members of the Committee: I appreciate the opportunity to testify as to the Administration's position on the proposed amendments to the Bank Holding Company Act of 1956 now before you. The amendments would regulate the issue of debt obligations by bank holding companies and their subsidiaries and affiliates and are a response to the proposed Citicorp offering of $850,000,000 of variable interest rate notes. With me today is Edward M. Roob, Special Assistant to the Secretary for Debt Management.

The underlying circumstances in our economy which led to the Citicorp offering, and hence to this hearing, are a reflection of the fact that the single most important domestic economic priority is the containment of inflation.

This will be, as I am sure members of this Committee are aware, a protracted and difficult task, but the alternative is so serious that we have no choice except to exercise the greatest restraint in our budgetary and monetary policies until inflation is controlled and we have again achieved price stability.

WS-62

I believe it should be clearly recognized in this hearing that the Citicorp floating rate issue, and the similar Chase Manhattan Corp issue, could have been anticipated as another inevitable consequence of the terrible dilemma posed to all of our institutions by inflation, on the one hand, and restrictive regulation, on the other.

As Secretary Simon warned eight months ago in his statement on the Financial Institutions Act before the Subcommittee on Financial Institutions of the Senate Committee on Banking, Housing and Urban Affairs:

> "....Educated by the last three 'credit crunches' and by constant advertisements about interest rates, even the less sophisticated savers have shifted their funds to the higher yielding instruments when market rates greatly exceed passbook ceilings. Such shifts began in the summer of 1973.
>
> "Thus, it is obvious the interest ceilings or differentials cannot protect thrift institutions. Additionally, large corporations, which are not subject to ceilings, have already successfully experimented with small-denomination capital debentures -- e.g., savings bonds. Any corporation or governmental unit is a potential competitor for the savings dollar. Savings institutions, therefore, must be allowed to compete for these funds if they are to continue to provide their intermediation function."

You will recall, when last August 3, President Nixon sent his message to the Congress recommending major changes in our financial system, that his objective then was to make that system stronger, more efficient, and more flexible so that it would continue to promote sound economic growth, including the provision of adequate funds for housing.

That should continue to be our objective.

President Nixon also had as an objective assuring that our financial system will be adaptable to the changing needs of borrowers and lenders, both large and small, and that it will be free to make full use of technological innovation.

That, too, should continue to be our objective.

As this Committee knows, the Financial Institutions Act is now the subject of extensive hearings before the Subcommittee on Financial Institutions of the Senate Committee on Banking, Housing and Urban affairs; that is Senator McIntyre's subcommittee.

I would hope that similar hearings will soon be held in the House, although I respect the technical jurisdictional problem created in the House by inclusion of a proposal to change the tax structure in a way which will ensure that all institutions have an equal incentive to make housing mortgage loans.

The Administration most strongly supports the Financial Institutions Act, as Secretary Simon has twice testified, most recently on May 13, and, indeed the philosophy which lies behind those proposals is the foundation for my comments on the proposed amendments to the Bank Holding Company Act.

For this reason, I would like to discuss first some of the present inadequacies of our financial markets and institutions which, in large part, make the proposed Citicorp offering of concern to this Committee.

Next, I plan to review the Financial Institutions Act and why we feel its prompt enactment is of great importance and will eliminate any adverse market impact which events like the Citicorp offering may have.

Our financial institutions are today operating under a system that in many respects is outdated and obsolete. Events in the last decade, indeed, have revealed significant defects in our financial markets and in our financial institutions.

These are such events as the credit crunch of 1966, the monetary and gold crises of 1968, the severe credit squeeze of 1969-70, the interest rate crunch of 1973, and the present stringent credit conditions of 1974.

The record shows clearly that our system does not adjust well to short-term changes in our economic and financial situation. In fact, our financial system has responded badly to changes in monetary policy and the level of interest rates, and this has been to the detriment both of savers and borrowers.

We have had an overabundance of money flowing into institutions at times, followed by a total cessation of deposits and even large withdrawals at other times.

The inability of our financial system to respond creatively to changes in monetary conditions has in large part been caused by the rigidities we have built into our banking laws over the past six decades. And, so, it is of urgent importance that we create new laws which will allow our financial institutions to change with changing times and to provide the services that are needed, to encourage savings, and to make loans in the most efficient, prudent, and responsive manner possible.

55

Only in this way will our financial institutions be able to make a maximum contribution to the growth and stability of our economy and, indeed, of the world economy.

The Financial Institutions Act was carefully and painstakingly worked out over almost two years of review and consultation. It is a balanced and consistent set of reforms which need to be enacted as a package.

I stress that final point, because a piecemeal approach would carry great risk of creating even more imbalances in our financial system.

Enacted as a package, the Act will -- I am confident -- improve the efficiency of all of our financial institutions and reduce their dependence upon Government. Our markets will be simplified, and we will be able to rely more on market determinations of the cost and availability of credit. Our institutions, whatever the future may be, will have greater ability to deal with rapidly changing market conditions and with the evolution of our economy.

Let me stress that it is by relaxing and removing restrictions on the activities of savings and banking institutions, and by eliminating self-defeating regulatory measures -- such as ceiling rates for time deposits and maximum nominal rates on guaranteed mortgages -- that we will assure the strength and continuing viability of these institutions and an adequate flow of savings to meet our capital needs, whether for housing, large or small business, agriculture, consumers, or State and local governments.

In particular, the mortgage tax credit will broaden the sources of housing finance without impairing the specialized institutions which hitherto have depended upon an unrealistic loss reserve.

As a package, the individual components of the Financial Institutions Act complement and balance each other.

Phasing out Regulation Q and other ceiling rates for time deposits at commercial banks and thrift institutions depends on the widened asset and liability powers, especially for thrift institutions. By strengthening the asset and deposit structure of savings institutions, we can make them more competitive for savings with commercial banks without the need for Government intervention.

Elimination of Regulation Q ceilings will benefit small savers who have been neglected and are penalized by the deposit ceiling rates set by the regulatory agencies.

It is easy to forget, Mr. Chairman and Members of the Committee, that savings accounts of less than $1,000 are more than half the total number of time and savings deposits in commercial banks. It is more than simply unfortunate that it is argued that the continued solvency of our thrift institutions can be achieved only by penalizing those who have so little or are so lacking in financial sophistication that they cannot seek out higher yielding investments to reward their savings.

It is also clear, Mr. Chairman, that the proposed amendments to the Bank Holding Company Act which will be reviewed today would do the same -- penalize those with the least in savings and sophistication.

In summary, with broader asset and liability powers, thrift institutions will be better able to compete for savings. Thus restraints on the efficient allocation of credit, such as the unfair and discriminatory ceilings on rates paid on savings, can be eliminated.

Mr. Chairman and Members of the Committee, unless we act positively on fundamental reforms, our institutions will continue to be dependent on Federal intervention under the slightest stringency.

Unfortunately, it will take time, even under the best of circumstances, for the reforms I have described to be effective, so there is need to consider what present actions should be taken in accordance with the principles set forth by the President on May 10, when he announced a $10.3 billion plan to alleviate conditions in the housing industry.

As the President said, "The main thrust of the economic policies of this Administration is the fight against inflation, but in carrying it forward, we are also seeking to minimize problems on other fronts."

Inflation has gone on for so long and become so intense that it has done damage to every sector of our society. It has hurt everyone -- corporations, financial institutions, local governments and most of all ordinary citizens.

Inflation has not only created great economic and financial costs, but it diminishes the strength of our social and political institutions.

The President is exactly right, therefore, when he points out that "....the most important steps which we can take to assure a healthy housing industry and more possibilities for home ownership are those which tend to lower the rate of inflation and raise real income."

We can, of course, count the one-time events that have significantly exacerbated inflation, both here in the United States and worldwide, but when we have done that, we are still faced with the prospect that prices will be rising at a rate of 7-1/2% per year. And the reason is that we, as a Government and as a people, have increased Government spending faster than we have been willing to pay for those expenditures through taxes.

We have, as a Nation, permitted, encouraged, and even forced the demand for goods and services to outrun our ability to produce.

We have failed to recognize that when we decide to give more to some, we are at the same time deciding to take those resources from others, explicitly through increased taxes or reduced expenditures elsewhere, or through inflation, which proves to be the worst tax of all.

Since the Government is partly responsible for some of the events which have resulted in the present great difficulties for the thrift institutions and the housing industry, the Government clearly has an obligation to do what is needed to assure the continued solvency of the thrift institutions and to maintain a level of housing activity which is consistent with our anti-inflation policies.

It seems to us that these obligations are best met by positive steps -- including, for example, enactment of the measures included in the President's special housing message ten months ago -- not by adding additional restrictions to those which already bear too heavily on our financial institutions.

Surely if the proposed $850 million Citicorp issue and the $200 million Chase Manhattan Corp. issue are viewed by the thrift institutions

57

as a threat, they are, at the same time, potentially beneficial if they bring added strength to the issuing financial institutions.

Many financial institutions today have significantly more short-term liabilities than they had even a year ago. At the same time, with the expansion in their total assets and liabilities which has taken place in the same period, their capitalization ratios have measurably declined. Thus, it is important for these institutions to have the ability, without undue regulatory restraint, to extend the maturity of their liabilities.

Clearly there are many considerations which should be balanced; some may be viewed as favorable and some unfavorable, depending upon your perspective. Legislation, such as these proposed amendments to the Bank Holding Company Act, can have tremendous implications for financial institutions. I am not at all sure that it is possible to understand all of the ramifications without a great deal more study and consideration than has been possible in the last few days either for us or for the Committee.

But, in any event, we believe this hasty proposal is the wrong approach and the Administration is strongly opposed to its enactment.

Let me also add that, beyond increasing the burdens of regulation, no matter how well the Federal Reserve might administer the amendments, the amendments are fundamentally antagonistic to savers and to saving at a time when we should especially be encouraging more savings, just at a time when we are beginning to appreciate the tremendous investment needs of expanded capacity, energy and pollution control.

Moreover, the proposed amendments would be grossly unfair in discriminating against bank holding companies as against other corporations which are competitive in many similar lines of activity. And discrimination apart, the Treasury is prepared to oppose even the first step toward capital controls which would thrust the Government into the heart of the private decision-making process.

I can reiterate, however, that the Administration will take such steps as may be necessary to maintain the solvency of the thrift industry.

In this connection, I would point out to the Committee that we strongly support Section 13 of H.R. 11221, "The Depositary Institutions Amendments of 1974," which would temporarily increase the Treasury's authority to lend to the Federal Home Loan Banks by an additional $3 billion.

We consider this provision of considerable importance, since $3 billion of Treasury's present $4 billion lending authority has already been committed under the President's program of assistance to housing.

The Treasury's lending authority to the Federal Home Loan Bank System has been an assurance to the financial markets that the System would be able always to make timely payment of principal and interest on its obligations. This has helped to assure the ability of the System to go to the market to borrow at competitive rates.

Restoration of the uncommitted Treasury lending authority would continue this assurance to the market and provide a further margin which, in the event of short-term necessity, could be used to make additional Treasury loans to the Home Loan Bank System.

5-8

We hope, therefore, that the House will prevail in the conference.

We also believe that it may now be timely to give some consideration to changes in the Regulation Q ceilings which would permit banks and thrift institutions to offer deposit terms which would be more competitive with market instruments, including variable rate instruments of the type proposed by Citicorp and Chase Manhattan Corp.

The banks and thrift institutions would have one valuable advantage in this competition; that is, deposit insurance, which makes their deposits Government guaranteed.

I am sure that the supervisory agencies ought to be able to work out such a competitive-type instrument within the framework of present law and with due regard to the interests of the institutions.

Mr. Chairman and members of the Committee; This has been a longer and perhaps more philosophical and less specific statement than you might have preferred. But I believe it is of first importance that we have a clear concept of the type of financial structure we are striving for in the future, so that we can assure ourselves that actions taken to deal with immediate problems will be consistent with our long-term objectives.

The Citicorp floating interest rate issue poses many economic and financial questions, and it may have been untimely. Nevertheless, we believe that any adverse consequences for the thrift institutions can be offset by measures which do not compromise our thrust toward freer financial markets.

We should not act in haste in a manner which could prove unduly restrictive in the future.

oOo

Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

59

FOR RELEASE 6:30 P.M. July 15, 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 July 18, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing October 17, 1974			26-week bills maturing January 16, 1975	
	Price	Equivalent Annual Rate		Price	Equivalent Annual Rate
High	98.083	7.584%		96.078 a/	7.758%
Low	98.042	7.746%		95.982	7.948%
Average	98.053	7.702% 1/		96.018	7.876% 1/

a/ Excepting 1 tender of $70,000

Tenders at the low price for the 13-week bills were allotted 65%.
Tenders at the low price for the 26-week bills were allotted 33%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 69,800,000	$ 58,485,000	$ 39,560,000	$ 19,560,000
New York	3,246,700,000	1,988,535,000	2,481,020,000	1,376,620,000
Philadelphia	37,490,000	37,145,000	22,815,000	22,815,000
Cleveland	80,585,000	77,755,000	56,025,000	56,025,000
Richmond	99,940,000	61,965,000	51,750,000	43,950,000
Atlanta	62,365,000	37,970,000	42,895,000	42,895,000
Chicago	207,285,000	108,955,000	219,470,000	103,950,000
St. Louis	55,465,000	33,465,000	49,670,000	43,670,000
Minneapolis	23,775,000	21,775,000	17,940,000	17,930,000
Kansas City	57,055,000	45,745,000	49,770,000	49,770,000
Dallas	36,625,000	19,585,000	35,830,000	25,805,000
San Francisco	228,920,000	109,105,000	200,130,000	97,130,000
TOTALS	$4,206,005,000	$2,600,485,000	b/$3,266,875,000	$1,900,120,000 c/

b/ Includes $469,780,000 noncompetitive tenders accepted at average price.
c/ Includes $413,850,000 noncompetitive tenders accepted at average price.
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 7.96% for the 13-week bills, and 8.32% for the 26-week bills.

Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

FOR IMMEDIATE RELEASE July 16, 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 July 25, 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 April 25, 1974, and to mature October 24, 1974 (CUSIP No. 912793 UV6), originally issued in the amount of $1,801,490,000 (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 July 25, 1974, and to mature January 23, 1975 (CUSIP No. 912793 VS2).

The bills will be issued for cash and in exchange for Treasury bills maturing July 25, 1974, outstanding in the amount of $4,298,755,000 of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,558,910,000. 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 22, 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 25, 1974, in cash or other immediately available funds or in a like face amount of Treasury bills maturing July 25, 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.

Removal Notice

The item identified below has been removed in accordance with FRASER's policy on handling sensitive information in digitization projects due to

Citation Information

Document Type:

Number of Pages Removed:

Author(s):

Title:

Date:

Journal:

Volume:

Page(s):

URL:

Removal Notice

FRASER

The item identified below has been removed in accordance with FRASER's policy on handling sensitive information in digitization projects due to

Citation Information

Document Type:

Number of Pages Removed:

Author(s):

Title:

Date:

Journal:

Volume:

Page(s):

URL:

Removal Notice

FRASER

The item identified below has been removed in accordance with FRASER's policy on handling sensitive information in digitization projects due to

Citation Information

Document Type:

Number of Pages Removed:

Author(s):

Title:

Date:

Journal:

Volume:

Page(s):

URL:

Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

70

FOR IMMEDIATE RELEASE July 18, 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 July 30, 1974, and to mature July 29, 1975 (CUSIP No. 912793 WR3).

The bills will be issued for cash and in exchange for Treasury bills maturing July 30, 1974, outstanding in the amount of $1,804,445,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $750,620,000. 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, and in book-entry form to designated bidders, 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, July 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 $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on July 30, 1974, in cash or other immediately available funds or in a like face amount of Treasury bills maturing July 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 W04-2041

71

MEMORANDUM FOR THE PRESS July 16, 1974

Attached for your reference is some material on Secretary of the Treasury William E. Simon's visit to Cairo, Egypt July 12-16 1974.

oOo

WS-64

72

July 13, 1974

TEXT OF SECRETARY OF TREASURY
WILLIAM SIMON'S
CAIRO ARRIVAL STATEMENT

"My wife and I are delighted to be here in Egypt. This is the first opportunity that we have had to visit this country of such historic significance. As you know, this visit is a result of the joint statement of President Sadat and President Nixon on the President's recent visit to this country.

The purpose of my visit is to commence discussions on the restructuring and strengthening of the financial system in this country.

I have brought a great number of experts with me to speak on subjects and areas that we think are going to be of interest to the Egyptian officials. We look forward to meeting these officials and all of us having very forthcoming discussions over the next few days.

But as important as the experts that we have brought with us, we came to listen and to learn and to ask questions, and to have a good deal of what we call give-and-take; so we have a better understanding of each other's problems in all of these areas.

I am looking forward to very constructive conversations with President Sadat, Deputy Prime Minister Hegazi and Minister Abdel-Fattah and many other people while I am here.

And finally I take great pride in being able to participate in a continuing relationship and the evolution of the long friendship and understanding between our two countries. And I think that our Presidents have done such a great deal in strengthening and giving interest to this friendship and understanding, to bring peace to this entire area and prosperity to its people. My participation in this brings me a great deal of happiness and satisfaction. I look forward to visiting with all of you over the next few days.

Q. Mr. Secretary, there seems to be some question about how much of the oil problem you will be discussing during your trip.

A. There is always speculation. The subject of energy, and that of course was one of the roles that I played in my government responsibilities back in the United States. The subject of energy is always a topic wherever you go in this world; both supplies and prices. I assume it comes up just very naturally.

Q. What about the petro dollars issue?

A. Well, that is also another subject, because the world seems to be suffering from some financial instability at this point; and I think we should discuss it in a very forthcoming way."

73

FOLLOWING ARE REMARKS FROM
PRESS BRIEFING AT MAMOURA
JULY 15, 1974 BY
PRESIDENT SADAT AND PRIME MINISTER HEGAZI

QUESTION: Sir, did you discuss in any specific terms with Mr. Simon his objective to encourage the creation of a climate here conductive to foreign investment?

SADAT: Sure, he discussed it all with Vice Premier Hegazi and their colleagues. I gave Secretary Simon the whole political aspect here in the area; and this is my job. This is my work. But regarding the economic aid subsidy or any other details, I leave it to Secretary Simon and Dr. Hegazi. But we have discussed the general line and we have agreed 100 percent.

QUESTION: Could you state the (Unclear).. Is it consistent? Is it private investment? Is it liberalization?

SADAT: I should like you to ask this question of Dr. Hegazi. He is the expert and he will be much more efficient than me.

HEGAZI: I think we have discussed a number of problems concerning the course of initiation and activation of the guarantee of investment as a first step and we are just about to sign tomorrow that agreement so this is one part of developing the climate that we expect in the future. The idea of assistance and reconstruction program and the sharing in other fields also has been discussed. We are looking forward to good results in the near future. And there are other items on the agenda, I think, so far as taxation exemption and the implementation of the investment law and we have also discussed prospects of cooperation in a good number of fields of investment such as joint ventures or some technical assistance in various branches. I think we will have a meeting tomorrow with the press to explain some of the framework.

QUESTION: Mr. President do you see the trip by the Secretary as part of the peace making process? Does this contribute to the peace making process?

SADAT: That's right. I must ask you to convey to the American people my deepest gratitude to President Nixon and to Secretary Simon for this trip because it is a real contribution to peace.

QUESTION: Sir, could we ask several questions about the general diplomatic situation in terms of peace right now? I believe that King Hussein will be coming to visit you this week.

SADAT: Tomorrow.

QUESTION: Can you tell us what you expect from this meeting?

SADAT: Why not wait until he comes (Laughter .. and after we meet I can tell you, if you are staying here. Maybe he will be on the trip with Secretary Simon.

QUESTION: I'll be traveling on, Sir. I raised the question because you had previously proposed a four-party meeting.

SADAT: That's right. We shall be discussing this. It is, as you know, the main item on our agenda for the Geneva Conference. The relations between Jordan and the Palestinians. So this will be the main item of discussion between me and King Hussein.

QUESTION: Are you hopeful that the four power, four-sided, meeting will take place before the Paris Summit?

SADAT: Sure, I hope so.

QUESTION: Could you tell us your evaluation of the American-Soviet Summit in relation to the Middle East and in relation to the Palestinian question?

SADAT: Very agreeable. Very agreeable.

QUESTION: Sir, Mr. Ebid said in Israel the other day that Secretary Kissinger and President Nixon had agreed that further arrangement between Israel and Egypt would be the next step in Geneva. Is this understanding as well?

SADAT: Well you see, my Foreign Minister will be visiting Dr. Kissinger, will be visiting the states early in August. I think they will be discussing this item.

Thank you very much Sir.

SADAT: Thank you.

74

PRESS CONFERENCE BY
U.S. SECRETARY OF THE TREASURY WILLIAM E. SIMON
AND EGYPTIAN PRIME MINISTER HEGAZI
IN PRIME MINISTER HEGAZI'S OFFICE
CAIRO, EGYPT, JULY 16, 1974

HEGAZI: Well, it gives me great pleasure to have this opportunity, first to thank Secretary Simon and his colleagues in the delegation for the most constructive work we have already done through these few days, and the few hours we have passed together. The discussions were very sincere -- to foster the relations and consolidate efforts between the two countries on the way of progress and peace. I think it would be quite opportune to hear Secretary Simon's summing up of the results we have already achieved as a first step on the way to the Joint Committee meeting which is going to be held in Washington in August.

SIMON: Thank you, Mr. Prime Minister. The Prime Minister and I have just exchanged documents which activate the investment guarantee agreement in order that the U.S. Overseas Private Investment Corporation, known as OPIC, may ensure new U.S. private investments in this country. This step was made possible by the decision that was announced earlier this week to establish a Joint Commission to seek settlement of U.S. private claims against the government, which we have discussed before.

Now, pursuant to the principles agreed to by President Nixon and President Sadat of our countries, in preparation for the meeting next month of the Joint Commission in Washington, between the United States and Egypt, we have agreed to the structure of a continuing mechanism for all of the areas of cooperation to facilitate growing cooperation between our two countries. We have agreed to form senior working groups of economic development and investment and this is in addition to the already formed groups on scientific and technological cooperation, on medical cooperation, and on cultural exchange. This senior working group on economic cooperation and investment includes five major areas of investment, domestic development and industrialization, foreign trade, agriculture and Suez Canal reconstruction and development.

Now, there were many definitives discussed on ways the United States and Egypt can work together in many broad areas, how the United States can assist Egypt in her industrialization and in her desire to strengthen the fibers of the economy and financial system, which, of course, was the purpose of this preliminary visit. As I told you at the outset, we came over to make some definitive suggestions, but most importantly we came to listen and to learn and to ask many questions about many of the facts and figures that we require before we can get on with the detailed work that must be done in the months ahead.

In the area of assistance, as you know, there are basically two major ways that a country can assist another country. One is in the hard dollar area, if you will. In that area we discussed the appropriation that we sent to Congress for $250 million in FY 1975. We discussed an expanded PL-480 program for the basic commodity needs, and this is in addition to the $250 million appropriation. We discussed, I might add, the more diverse (garbled) second the $250 million, $170 million of this is to be used for the Suez reconstruction and development. The other will be the (garbled) commodities including internationally freighted raw materials but not the commodities that are included in the PL-480 agreement. This is not to be confused. We talked of ways that we can work with the Export-Import Bank encouraging the loans and credits to this country. Also, our contributions to the international financial institutions, the IMF and the World Bank.

Now, the other side of assistance is of a technical nature. The expertise, financial and economic, that the United States can offer through tax administration, through debt management, debt structuring and many other forms through our Department of Commerce, State and many technical agencies.

With that, I've sort of given you a broad brush of the conversations that were held while we were here, and, Mr. Prime Minister, I would like to turn it back to you.

HEGAZI: We have discussed a very large scope of subjects, starting from the promotion of private investment, joint ventures -- we have already a number of applications for banks to work, in the free zones, and in hard currency as well as in the local market. On the private investment side, we already have had quite a number of discussions concerning projects, on the top of the list is petrochemicals and agro-industrial projects, side by side with maritime transport activities. Also there are discussions concerning investment in tourism. We have a good number of applications for that and we are trying to do our best on both sides to bring about a climate of confidence and cooperation so as to find out what are the projects in Egypt which could be put under observation and for American investors to take part in.

Today I am glad to say that we have already accepted to give permits to four major U.S. banks: the Chase Manhattan, the First National City Bank of New York, the American Express, and the Bank of America. We gave this decision today because we find it so important for financial circles in the United States and Egypt to find ways and means to implement the feasibility study of the projects in hand and future projects.

Also, I think Secretary Simon also suggested, and we have agreed, to find ways and means for a sort of technical cooperation on feasibilities studies of projects. And that's why there was a suggestion to establish a project development institute. I think this is also one of the important results of this meeting. After the discussions which took place this morning with the press, I think the meetings with the responsible ministers have shown our friends here at the table that we are here to implement the words which are included word by word and in the new era which we are looking after at the moment by the policy of liberalization and the opening up of the Egyptian economy. We are keen to facilitate all procedures and we will take measures for all actions necessary to cut bureaucracy and give more freedom and flexibility, not only to the private sector but also to the public sector, to act directly with some of the business circles whether inside the country or with international organs.

That is why I think we will be ready to answer and give any details, if you think you still, after the few hours you have spent with our ministers, have questions. I am quite sure this framework, after the organism which we have agreed to establish today, and with the working groups, working subcommittees, more or less which will take place as soon as possible. On our side in Egypt, we will appoint one of our higher officials to head the committee of this senior working group. We understood that Mr. Parsky is being appointed on the American side and that will give us a chance for people to have enough time, ample time, with our people here in Egypt and with the technicians, the experts, on the other side. I think this committee will definitely add much to the success of the objectives already outlined by our two Presidents.

I think we are ready to explain or at least interpret or add anything which you think feasible.

QUESTION: Mr. Hegazi, could you tell us what kind of applications for U.S. banks you approved, whether it is (garbled) merchant banks (garbled)?

HEGAZI: The Chase Manhattan is asking for a branch and a joint venture, with the National Bank of Egypt. The First City National Bank of New York is a branch so far. American Express is also a branch. Bank of America is a joint venture with Bank Misr. What we have accepted today is just to give them the final permits for the branches. For the two banks which are getting into joint ventures, I think a study has to be completed by our banks. You know we have to apply the capital and this is going to be implemented as I said in the free zone or in hard currency. Because the second step, which is in the local market, I think we have to set a policy for that. We will start first with the foreign activities and secondly will get into the joint ventures for the local market. I think I gave you this yesterday.

QUESTION: Will there be branches only in the free zone?

HEGAZI: Not necessarily.

QUESTION: But the joint ventures are likely to be in the free zone?

HEGAZI: Joint ventures for hard currency, no, because the investment law has given us the chance now to accept any foreign activity in any part of the country. But we have, of course, to decide where: in Cairo, in Alexandria, in Suez, Ismalia or Port Said. We have to fix the region or the field of activity, you know.

SIMON: In addition, if you'll excuse me, Mr. Prime Minister, I think it is important to emphasize the importance of this new investment law and its impact on attracting investment to this country. Now, I know that this was explained to all of you this morning, and I hope in great detail; I am sure you asked a great deal of questions. Also, what's important, which I neglected to mention, is the commencement of work on a tax treaty that will obviate double taxation in our country, certainly the removal of an impediment on investment.

QUESTION: Mr. Prime Minister, under the agreements you have signed, are there guarantees against expropriation of U.S. investments in the future?

HEGAZI: Yes.

QUESTION: Are you saying, sir, that Egypt will not nationalize American firms in the future?

HEGAZI: Well, I think according to the investment law which has been issued, this is mentioned in broader terms that no sequestration -- of course, I mean any country has, according to its sovereignty, that power, but according to the investment law this has been clearly stated.

SIMON: That's the important point. It's in the new investment law -- the specifics on nationalization. The investment agreement just clears the way, as I explained yesterday; legally, specifically it does not deal with expropriation.

HEGAZI: I should like to add one thing probably not mentioned in our meeting, because this is rather a bilateral discussion, but we have also an agreement in the Arab League that any Arab country that calls for any sort of activity, whether industrial or agricultural, banking or whatever it is for foreign capital, once the country is asking for that investment, well, this investment is not subjected to any acts of nationalization or sequestration or otherwise.

QUESTION: Gentlemen, you mentioned the project development institute, where will this be established and who will be staffing it?

HEGAZI: I think it will be in Cairo -- the details of which will be discussed between both of us. It may be a separate center or it may be one center in one of the main institutes we have here.

SIMON: One of the mechanisms in attracting investment to a country is to have a body that is responsible for the planning and feasibility studies and making known the specifics of the requirements in the country and the desire on the part of the country to attract investment; now, this is an area in which a project development institute would be extremely helpful, most particularly in the area of feasibility. Because industries worldwide want to know many economic answers before they are going to invest their money in a foreign country...the consumer, the potential profit, can a product be sold, exported, all the marketing and industrial and ability to manufacture questions that go along with any size of investment.

QUESTION: Will there be any restrictions on repatriation of profits?

HEGAZI: I think this has been explained. Also, this is very clear in the investment law and the regulations already put into effect by the Authority for Foreign Investment. And that really depends on a number of factors in which we take care into making the feasibility studies on the acceptance of foreign capital in this country. Once the foreign component has been achieved by the investor, there is no restriction whatsoever.

Number two, any additions by the foreign investors to the local requirements for that which is being financed also this could be allowed, there are no restrictions.

QUESTION: Mr. Prime Minister, as you know the Nixon Administration asked for $250 million in economic aid for Egypt over the next fiscal year. Have you suggested to Secretary Simon that the amount might be higher?

HEGAZI: Well, I have always been saying, and I think this is a good opportunity, I would say if the American Congress gives $2.2 billion to Israel for armaments, I think $2.2 is the minimum for "progress and peace," using the words of President Nixon. We are calling for $2.2 billion as a minimum. I am sorry for that (to Secretary Simon). (Laughter)

SIMON: Please (to newsmen) would you do me just one favor and don't tear up everything else you have written down because I know now what your headlines will be. (Laughter)

QUESTION: Mr. Prime Minister, did you specifically suggest that figure to Secretary Simon?

HEGAZI: I have no suggestions, because I don't think I am in a position to ask for figures. The U.S. and the Congress and Mr. Simon and everybody know that the Suez Canal Zone is an important area and a strategic area and the construction taking place in that area needs a lot of money which is in billions not in millions. Suez Canal by itself, the reopening and the widening of the Canal, is for the sake of peace and progress of the whole world, either by aid or by soft loan. I think the world should share in that.

QUESTION: Mr. Secretary, do you have any response to that?

SIMON: Well, we believe that these preliminary talks are extremely important, extremely useful in understanding the problems. But more importantly to learn the magnitude of the problems in this country. We will go back with greater knowledge and a greater desire to get into the definities and

77

specifics in the working groups to set about the restructuring and assisting in strengthening the economy of Egypt every way that we can.

As far as the specifics and dollar amounts -- which gets to your question, I presume, as you know, from America, the legislation and appropriation process. We have asked Congress for the $250 million and the additional PL-480. We are going to assure Egypt that the highest priority in this program as well as in the other international finance institutions and that is what we are prepared to extend at this time.

QUESTION: Mr. Prime Minister, in discussing liberalization in the Egyptian economy, did you discuss at all the ending of subsidies on consumer goods? And if so, did you make any commitments?

HEGAZI: I think this is internal policy, excuse me if I say that. This is policy which has been implemented so long and I think this is a general subject which we have to look into in the future. But as a socialist measure, we're not ready to check that at this moment. This is an important part of our mechanism, which I think kept inflation down and helped this country through all its difficulties during the last six or seven years.

But one point is important. That is the wheat and the requirements of PL-480. You remember the situation in '66. So we are looking forward to PL-480 as one of the important parts of our future discussions and I am sure this will be taken into consideration.

QUESTION: Mr. Prime Minister, on the subject of wheat, did you suggest to Secretary Simon how much wheat Egypt might have next year? And what was his response? Was it satisfactory to you? Will you get as much wheat as you want?

HEGAZI: Well, I am quite satisfied with the discussions in various fields, whether it is with PL-480 or in other fields. We have discussed details about commodities, about investments and everything. It's being done in black and white in a very frank discussion because I think it is so important for us to think of the difficulties we have and then it is for the American side to decide.

QUESTION: Were there any commitments made to each other?

HEGAZI: The first priority for Egypt would be in taking a decision so far as PL-480 is concerned.

SIMON: My point on PL-480, of course, is that we are setting our priorities right now back in the U.S. Most importantly, we have to know what our harvest will be. We've had forecasts all year. You know how precarious forecasts can be, because the weather is involved and you know how little control we have over that, like so many other things. The original forecast appears to be a little bit higher than the recent forecast because of some poor weather.

QUESTION: Mr. Prime Minister, has there been what you might call "marking of time" pending progress in the Geneva peace negotiations?

HEGAZI: I don't think much cooperation is tied to Geneva, because this is I think instead the prospect of building up cooperation between Egypt and the U.S. as a policy.

QUESTION: Do you foresee any possible developments in the Middle East which would negate the progress you have made this week?

HEGAZI: Well, that depends on the steps to be taken in Geneva.

QUESTION: It does not depend on any actions by Israel? I am thinking of possible events which might occur in the future which in themselves might negate the obvious progress you have made this week.

HEGAZI: I hope not.

QUESTION: Mr. Prime Minister, there seems to be some confusion as to whether you've asked for any rescheduling of the Egyptian debt to the United States during your talks here in the last few days. Can you tell us whether you have or have not?

HEGAZI: I don't think the debt for the U.S. is worrying Egypt as such; so we have discussed all details concerning figures on all accounts between Egypt and the U.S. A study is going to be done concerning the settlement of the arrears and the future prospects.

QUESTION: Have you worked out any timetable for the Joint Committee?

HEGAZI: I think the Joint Committee will meet first in August. It may have the opportunity to visit the United States by the end of September. The IMF meeting probably will have something in detail by this time.

SIMON: But in the interim the senior working groups are going to be working on the specifics of all the broad areas.

QUESTION: Will the study of arrears be confined to the United States or will it be a study of Egypt's foreign debts in general?

HEGAZI: We are talking now about the United States and Egypt only. I think we have an idea about how to handle it in the future.

QUESTION: Is there any possibility of rescheduling the debt?

HEGAZI: That depends on the time when we could bring this into discussion. I think you will be hearing very soon about the credit-worthiness of Egypt from some international bodies and allow me to say something because all the questions are just going around in a vicious circle. I would like to clarify some of the points.

After the Sixth of October War, we feel very confident about the economic position of Egypt, partially because we have passed through six-and-a-half or seven years of hardship with very little aid comparatively with what is being spent on armaments and defense. You all know that Arab aid to Egypt was 100 million pounds per annum and we have spent over 5,000 million pounds on defense. By all measurements I think for what you are asking that the foreign debt is nothing compared with what was spent on armaments and defense.

For your knowledge, I will just add a few more statements that during the period of six-and-a-half or seven years investments were not pouring into consumable goods by any means. We have been constructing heavy industries and reclaiming land; so these were two big burdens on Egypt during the seven years. Allocation for armaments and defense and heavy investment in long-term projects means the people of Egypt have been sacrificing quite a lot in consumer goods and services. That's why it is opportune at the moment to think of the future possibilities for development in Egypt. That's why we are now devising the whole plan for the future giving priorities, fields of activity that will add to the production of commodities required for the masses.

Second, which is very important, also, is the problem of finances. It is not what is worrying Egypt as such, but it is a priority project for the future for the potentialities of Egypt. Probably my colleagues in the Cabinet have explained to you the potentialities in tourism, in oil explorations, in mining, in agro-industrial development for export purposes (as well as for local consumption), for the utilization of the ideal capacities of our industrial and other fields of activities. This will add straight to the revenues of this country.

All this has proved that we, I think, will stand on solid ground. Side by side with this, you know that we are embarking on a joint effort with the Arab countries for the use of surpluses for investments and fortunately for reconstruction. We have already had many applications. I'll just quote one example: in the tourist field we have applications for hotels and other things amounting to 90 million tons. We have a number of applications from a number of industrial circles and other investors, both private individuals and otherwise in a number of branches.

That is why I'm not worrying about this problem of rescheduling of the debt service, the way you may have in mind. I'm not at the moment ready to give figures, but that is my belief. This country has lived seven years and got through. That is why I say that the future is bright. Side by side with the recent price and its effect on the local economic position. That is why we managed to keep our inflation at a lower level. At least that's how the economic reporters from outside circles, foreign circles, say.

QUESTION: You know the Secretary is about to depart for Israel. Can you give him any suggestions as to what he might discuss with them?

HEGAZI: Well, I think Israel's problems are her own problems. We always say we are looking for peace, that's all.

oOo

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

79

FOR IMMEDIATE RELEASE July 19, 1974

JAY N. WOODWORTH RESIGNS AS DEPUTY TO THE ASSISTANT SECRETARY FOR ECONOMIC POLICY

The Treasury Department today announced the resignation of Jay N. Woodworth as Deputy to the Assistant Secretary for Economic Policy effective July 19, 1974. Mr. Woodworth will rejoin the Chemical Bank in New York City as Vice President and Chief of International Planning. He had served as Assistant Vice President and Chief Domestic Economist of the Chemical Bank prior to his appointment to the position with the Department of the Treasury in April, 1972.

In his position with the Treasury, Mr. Woodworth has been engaged in a variety of Treasury activities, including particularly analysis of current economic and financial developments and the Economic Stabilization Program.

In accepting his resignation with "regret", Treasury Secretary William E. Simon expressed "gratitude" for Mr. Woodworth's "significant contributions to the formulation of our economic policy. You have earned my own high respect, that of the former Secretaries for whom you have worked, and the respect of your colleagues as well."

WS-65

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

80

FOR IMMEDIATE RELEASE July 18, 1974

SALE OF $1.5 BILLION SEPTEMBER TAX ANTICIPATION BILLS

The Treasury Department is selling $1.5 billion of 44-day Treasury tax anticipation bills which will mature in September 1974.

The bills will be auctioned on Thursday, August 1, for payment on Wednesday, August 7. Commercial banks may make payment for their own and their customers' accepted tenders by crediting Treasury tax and loan accounts.

The bills will mature on September 20, 1974, but may be used at face value in payment of Federal income taxes due September 15, 1974.

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

FOR IMMEDIATE RELEASE July 18, 1974

TREASURY OFFERS $1.5 BILLION OF SEPTEMBER TAX ANTICIPATION BILLS

The Treasury Department, by this public notice, invites tenders for $1,500,000,000, or thereabouts, of 44-day Treasury bills, to be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided. The bills of this series will be dated August 7, 1974, and will mature September 20, 1974 (CUSIP No. 912793 WX0). They will be accepted at face value in payment of income taxes due on September 15, 1974, and to the extent they are not presented for this purpose the face amount of these bills will be payable without interest at maturity. Taxpayers desiring to apply these bills in payment of September 15, 1974, income taxes may submit the bills to a Federal Reserve Bank or Branch or to the Bureau of the Public Debt, Washington, D. C. 20226, not more than fifteen days before that date. In the case of bills submitted in payment of income taxes of a corporation they shall be accompanied by a duly completed Form 503 and the office receiving these items will effect the deposit on September 15, 1974. In the case of bills submitted in payment of income taxes of all other taxpayers, the office receiving the bills will issue receipts therefor, the original of which the taxpayer shall submit on or before September 15, 1974, to the Internal Revenue Service Center Director for the District in which such taxes are payable. The bills will be issued in bearer form, and in book-entry form to designated bidders, 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, August 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 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.

(OVER)

All bidders are required to agree not to purchase or to sell, or to make any agreements with respect to the purchase or sale or other disposition of any bills of this issue at a specific rate or price, until after one-thirty p.m., Eastern Daylight Saving time, Thursday, August 1, 1974.

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 $300,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on August 7, 1974. Any qualified depositary will be permitted to make settlement by credit in its Treasury tax and loan account for Treasury bills allotted to it for itself and its customers.

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

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

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

FOR IMMEDIATE RELEASE July 18, 1974

JOINT STATEMENT ON THE OCCASION
OF SECRETARY SIMON'S VISIT
TO ISRAEL JULY 16-18, 1974

During the visit of United States Secretary of the Treasury William Simon to Israel July 16-18 he met with Prime Minister Rabin, Deputy Prime Minister and Foreign Minister Allon, Finance Minister Rabinowitz, Minister of Commerce and Industry Barlev, Defense Minister Peres and Governor of the Bank of Israel Zanbar, and other senior members of the Israeli Government.

It was agreed that the talks, held in an atmosphere of cordiality and understanding, marked a fruitful and constructive first step toward implementing the joint statement of President Nixon and Prime Minister Rabin of June 17. Secretary Simon was fully briefed on the Israeli economic situation today and the forecast for the future. The briefing covered the subjects of long-range economic needs, the encouragement of American private investment in Israel, means to strengthen U.S.-Israel bilateral economic relations and other goals to be achieved within the principles embodied in the joint statement. The Prime Minister and his colleagues described the heavy defense burden that Israel continues to bear as it endeavors with its neighbors to achieve a just and durable peace in the middle East, and the impact of this burden on Israel's economy and its government's efforts to build a better life for its citizens. They requested that the funding required for long-range defense procurement agreements be provided as soon as possible. The need for rapid economic development of Israel was also discussed.

Secretary Simon noted the excellent impression he had gained in this, his first visit to Israel, of the prevalent dynamism and spirit of self-help evident in Israeli economy. He assured the Prime Minister of the United States' continuing strong support for Israel's security and economic development.

WS-66

It was agreed that the United States and Israel would establish a Joint Committee for Investment and Trade to be chaired jointly by Secretary Simon and Minister Rabinowitz. Participating in the work of the Committee would be other officers of cabinet level from both countries. Four sub-committees would operate under the Joint Committee covering encouragement of capital investment, trade, raw materials, and research and development activities. The desirability of a U.S.-Israel Trade and Investment Council was discussed, to be composed of participants from the private sectors of both countries. Both governments agreed to explore, as soon as possible, ways in which such a council could be established, and the means to draw to the attention of the business community in the U.S. that investment in Israel is in the common interest of the U.S. and Israel.

It was further agreed that the work of organizing the sub-committees would begin immediately in preparation for an early meeting of the Joint Committee not later than November. Secretary Simon has invited Minister of Finance Rabinowitz to Washington for this meeting and to discuss other matters of common interest, and Minister Rabinowitz has accepted.

At the conclusion of Secretary Simon's visit the Prime Minister and the Secretary expressed their satisfaction that already, one month after President Nixon's visit to Israel, the firmer and more clearly defined structure of consultation and cooperation envisaged by the joint statement of June 17 was taking an effective form.

0o0

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

83

(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	29,502	19	.06
Series J and K-1952 thru 1957	3,754	3,748	6	.16
UNMATURED				
Series E 3/:				
1941	1,935	1,754	181	9.35
1942	8,538	7,726	812	9.51
1943	13,728	12,444	1,285	9.36
1944	16,031	14,451	1,580	9.86
1945	12,629	11,246	1,383	10.95
1946	5,766	4,988	778	13.49
1947	5,503	4,634	869	15.79
1948	5,710	4,733	976	17.09
1949	5,671	4,625	1,047	18.46
1950	4,981	4,010	971	19.49
1951	4,309	3,469	840	19.49
1952	4,517	3,614	903	19.99
1953	5,184	4,068	1,115	21.51
1954	5,296	4,097	1,199	22.64
1955	5,515	4,231	1,284	23.28
1956	5,332	4,060	1,271	23.84
1957	5,031	3,788	1,244	24.73
1958	4,929	3,620	1,309	26.56
1959	4,627	3,365	1,262	27.27
1960	4,661	3,300	1,360	29.18
1961	4,760	3,257	1,503	31.58
1962	4,639	3,096	1,543	33.26
1963	5,227	3,308	1,919	36.71
1964	5,094	3,229	1,865	36.61
1965	4,988	3,139	1,849	37.07
1966	5,403	3,265	2,139	39.59
1967	5,328	3,176	2,152	40.39
1968	5,033	2,973	2,060	40.93
1969	4,744	2,698	2,046	43.13
1970	4,980	2,574	2,406	48.31
1971	5,743	2,567	3,176	55.30
1972	6,346	2,410	3,936	62.02
1973	6,317	1,904	4,413	69.86
1974	1,776	225	1,551	87.33
Unclassified	478	471	7	1.46
Total Series E	200,751	146,517	54,234	27.02
Series H (1952 thru May, 1959) 3/	5,485	4,091	1,393	25.40
H (June, 1959 thru 1974)	9,716	3,423	6,293	64.77
Total Series H	15,201	7,515	7,686	50.56
Total Series E and H	215,952	154,032	61,920	28.67
All Series — Total matured	38,278	38,250	27	.07
All Series — Total unmatured	215,952	154,032	61,920	28.67
All Series — Grand Total	254,230	192,282	61,947	24.37

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.*

Form PD 3812 (Rev. Mar. 1974) – Dept. of the Treasury – Bureau of the Public Debt

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

84

FOR IMMEDIATE RELEASE July 22, 1974

AMENDMENT OF ANTIDUMPING DETERMINATION OF SALES AT LESS THAN FAIR VALUE IN NON-POWERED HAND TOOLS FROM JAPAN

Assistant Secretary of the Treasury David R. Macdonald announced today the issuance of an amendment to the sales at less than fair value determination in the antidumping investigation of non-powered hand tools from Japan. The determination is amended to restrict its scope solely to wrenches, pliers, screwdrivers, and metal-cutting snips and shears.

The determination, published in the Federal Register of June 21, 1974, and the withholding of appraisement, published on March 25, 1974, are revoked insofar as they include merchandise other than that described in the four categories.

Notice of this action will be published in the Federal Register of July 23, 1974.

# # # # #

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

86

FOR IMMEDIATE RELEASE July 22, 1974

SIMON TO MEET WITH ITALIAN OFFICIALS

Secretary of the Treasury William E. Simon will visit Rome on Tuesday, July 23, as part of continuing cabinet-level consultations between the United States and the nations of western Europe. Mr. Simon, whose arrival in Rome follows a series of meetings with government leaders in Egypt, Israel, Saudi Arabia, Kuwait and West Germany, is expected to confer with Italian Minister of the Treasury Emilio Colombo and perhaps other Italian authorities.

The Treasury Secretary will depart Rome the same day in order to meet with financial officials of France and Great Britain. He will return to the United States on July 27.

oOo

WS-68

PRESS CONFERENCE BY
TREASURY SECRETARY WILLIAM E. SIMON
AT BEN GURION AIRPORT, TEL AVIV, ISRAEL
JULY 18, 1974

86

QUESTION: Could you possibly give us more facts and figures to cover this communique in detail? My second question: what's the range in years of the agreement?

SIMON: The "agreement" we are looking to sign has no definitive termination point. This is a long-term arrangement and, as such, there is no two-year, five-year (period) economic assistance, whether it be in the hard sense of the word or the technical assistance sense, and all of the expertise that we can provide in the areas of economic finance and tax, etc., necessarily take a long time. So I don't really think we have to have a timeframe on this agreement. This will be an ongoing, working, cooperative relationship, formalized in this area specifically to deal with the areas as mentioned in our communique. The agreement won't be signed until November of this year. The working groups go to work in the areas of energy, raw materials, trade, encouraging investment, etc., now working toward the acceptance of the definitives of the agreement which will be signed in November.

This requires a great deal of work, and one day and a half of discussions cannot reach all of the definitive decisions and get to all the facts and figures we have received. One of the functions we have here was to come and to listen, to learn, and to get the views of the leaders on all the subjects we intend to cover. We now have to get to work and solve some of the problems and identify the areas specifically that we are going to focus on.

QUESTION: For those of us who are not experts in economics, would you give us an idea of what specifically we are talking about? Is it simply American aid?

SIMON: No. Basically, the strengthening of the structure of the Israeli economy can be done in two ways. It can be done simplistically with our dollar appropriations from our Congress in the United States which, as you well know, have been substantial in the past. As President Nixon assured, we will continue with the authorizations from Congress to provide the assistance for this country in the future. It can be done through PL-480, through ourselves working with the Export-Import Bank on financing credits for industries, with the World Bank, with all of the international and other bilateral, as well, institutions. Then, one might say that's the hard side.

On what might be called the soft side we could talk about the technical assistance, the expertise that we can provide, the definitives of tax treaties, how to encourage American investment, trade councils to be set up, joint industry trade councils with very visible United States cooperation and assistance encouraging our industries to come and invest in Israel, explaining the profitability, education in our country through our Department of Commerce. Our Commerce Department in the United States helps in many specific ways.

So these are the two types of aid. Working groups, of course, will function primarily on the second side as the hard loan side has already been discussed and will continue to be discussed.

QUESTION: Israel has reportedly asked for long-term military aid, large-scale military aid and also for economic assistance. How do you rate the prospects of these requests to receive Congressional approval?

SIMON: I never attempt to prejudge the Congress when you talk about long-term assistance. Their long-term assistance that they asked for in Washington a short time ago was, I believe, a billion and a half dollars a year for a five-year period. This is being studied by our Defense Department in Washington right at the present while I am away, and that will be first determined in the Administration as to the feasibility of the request, as to the economic feasibility, and then we will go up with what our suggestions are and what our recommendations are to the Congress and expect to be able to get the monies appropriated. Our Congress has been generous, very generous, to this country in the past. But I wouldn't attempt to speculate on what number they might authorize nor indeed what number that we would recommend vis-a-vis the initial request.

QUESTION: One of the major wire services carried a story reporting that the publication known as the American Banker quotes you as saying that you are bypassing Iran on the trip because, and I quote, the Shah is a nut, unquote. Did you say that and is that the reason you're not visiting Iran?

SIMON: No, it is not. I will give you the background on this trip. About six weeks ago Prince Fahd from Saudi Arabia brought a delegation to Washington to commence long-term discussions on economic development, industrialization, diversification, science and technology, etc. -- same economic-type mission. We agreed at that time to set up the working groups and to commence working the middle of July in Jidda, and it was envisioned or perhaps imagined at that time that I would potentially go over to open up the working groups with my Assistant Secretary, Gerry Parsky, who will chair.

Then, subsequent to the President and Secretary Kissinger's visit to the Mid East, they decided -- the President decided -- that I would be visiting Egypt and Israel.

I then said that as long as I was doing this tour of the Middle East, that I had looked for an opportunity to visit my counterparts, my associates, in Italy, France, Germany and finance minister associates in the U.K. I was unable to meet with (inaudible) in Paris because he was just two days on the job when our ministerial meeting was held in Washington earlier this month.

So there was absolutely nothing to do with should we add another country. I am going to enough countries, and I will be away long enough, and I don't have a sufficient period of time to really stop in everywhere that I would like to. That will have to be held for a second trip.

QUESTION: So the quote attributed to you, Mr. Secretary, is not correct?

SIMON: The quote relative to I am not going to Iran because the Shah or whatever was quoted is not a correct statement. That is correct.

QUESTION: In your day and a half of talks, what is your view of Israel's economic shape? What shape is the country in?

SIMON: I think that this is consistent with my entire visit and what my reason is for coming even though there have been lots of people who have suggested that my reason for visiting the Mid East has had something to do with oil prices and lots of other exotic things that are so disturbing to the world economies today.

Basically, as I said in my opening statement when I arrived here, Israel is the prodigy of post World War II economic development. This is a fundamentally very sound, strong economy. While they do, indeed, as the rest of the countries in the world, have today is a terrible problem with the inflation, their growth rate is working on. As you well know, the measures that have been announced by the Finance Minister and by this government to deal with the problem of inflation, utilizing the demand for strength, as we are also doing in the United States -- but their economic growth is assured and it's sound.

But it must continue to be assured through continued guaranteed growth in the future, and this is what we're here to work on. Obviously there's a problem as far as peace is concerned -- lasting peace. Because without a lasting peace, one cannot have economic growth. The issues of war, peace and economic growth are interrelated. And that is really the purpose of my visit -- to begin to promote this sound economic growth in this entire Mid Eastern sector which will guarantee a lasting peace.

QUESTION: Is the U.S. planning a similar agreement with Syria?

SIMON: That, to the best of my knowledge, has not been discussed.

QUESTION: With inflation playing both a political and economic role in the American scene and with the admission of the federal government that it may take some years before inflation is properly controlled, do you believe that Congress will implement some of the plans and arrangements that you seek in order to help many of these nations by virtue of our dollar aid?

SIMON: We have before Congress now the appropriations that we have requested for the various countries. We're putting together our PL-480 requirements at the present as far as the agricultural area is concerned. Inflation is the number one problem in the world today, and everyone worldwide is working terribly hard to cure it. There have been very stringent demand restraints -- fiscal programs -- within almost every major country of the world and several of the less major. I frankly am optimistic that these are going to work. You know, there is no instant cure, no quick fix, if you will, for the inflation problem. What it requires is getting back to the fundamentals, getting back to what we call that old-time religion and dealing with the root causes of inflation and stop attacking the results of inflation, and that finally is what we're getting through. Good politics and good economics are now the same.

QUESTION: Would it be fair to say, nonetheless, that the recent world oil prices have indeed been a catalyst to increased inflation? And what do you think we should do about it?

SIMON: We've had two major factors: one, the increase in food prices; and two, the increase in oil prices. This contributed approximately 60 percent to the American inflation problem last year. Now these two obviously are phasing out.

We're about to harvest a record harvest in the U.S. -- a little bit below our original forecast, but nonetheless it will be a record. So, we've already seen pressure put on the wholesale prices of our agricultural commodities in our country.

No one expects the price of oil, certainly, to escalate from these levels. Indeed, the response has been to these prices that it has created a surplus in this world. So I think that there's probably going to be in the months ahead some pressure on the prices. One might look for some easing ahead.

So I think those two factors, while they were a major contribution to inflation worldwide, that the third factor being the simultaneous boom in all the industrialized nations of the world was creating such extraordinary demands and obviously, consequently, the industrially traded raw materials had a dramatic increase in price. Well, with the demand restraint programs in place, that's going to slow down the demand and finally bring some equilibrium to supply and demand and allow us to build a base to increase productivity and capacity in every country in the world which is going to be the only ultimate answer. We have to stop as governments of the world, and I mean of the world, encouraging consumption and penalizing savings and investment. And this will bring the prosperity that we all desire for all of our peoples.

QUESTION: Mr. Secretary, there was an article in the newspaper this morning quoting President Sadat as saying that he would like compensation from the U.S. for the oil that Israel has taken out of the Abu Rodeis oilfields since the Six Day War. Is it likely in your opinion that the U.S. would be willing to give such compensation?

SIMON: When I met with President Sadat for over an hour the other day, he did not bring it up; so I have no knowledge of that statement whatsoever. As far as the negotiations are concerned and the withdrawal in a very sensitive area, I leave that to President Nixon and Secretary Kissinger -- very wisely.

oOo

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

89

FOR RELEASE 6:30 P.M. July 22, 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 July 25, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing October 24, 1974		26-week bills maturing January 23, 1975	
	Price	Equivalent Annual Rate	Price	Equivalent Annual Rate
High	98.085	7.576%	96.117	7.681%
Low	98.071	7.631%	96.084	7.746%
Average	98.078	7.604% 1/	96.107	7.700% 1/

Tenders at the low price for the 13-week bills were allotted 48%.
Tenders at the low price for the 26-week bills were allotted 89%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 64,015,000	$ 32,080,000	$ 22,080,000	$ 12,080,000
New York	3,676,245,000	2,292,595,000	2,994,620,000	1,657,190,000
Philadelphia	30,710,000	28,765,000	15,130,000	13,520,000
Cleveland	75,775,000	35,745,000	49,040,000	26,990,000
Richmond	78,810,000	28,070,000	76,000,000	21,590,000
Atlanta	45,180,000	27,285,000	26,850,000	23,500,000
Chicago	198,765,000	33,905,000	193,020,000	35,990,000
St. Louis	45,515,000	24,415,000	43,030,000	17,980,000
Minneapolis	16,840,000	4,840,000	17,990,000	5,610,000
Kansas City	37,735,000	29,960,000	29,615,000	25,700,000
Dallas	37,780,000	16,780,000	37,260,000	16,335,000
San Francisco	156,300,000	45,615,000	213,035,000	43,565,000
TOTALS	$4,463,670,000	$2,600,055,000 a/	$3,717,670,000	$1,900,050,000 b/

a/ Includes $408,310,000 noncompetitive tenders accepted at average price.
b/ Includes $275,150,000 noncompetitive tenders accepted at average price.
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 7.86% for the 13-week bills, and 8.12% for the 26-week bills.

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

90

RELEASE AM THURSDAY, JULY 25, 1974

GEORGIA PICKED FOR DIRECT DEPOSIT OF SOCIAL SECURITY CHECKS
IN FIRST PHASE OF NATIONWIDE VOLUNTARY PROGRAM

Georgia's 700,000 social security and supplemental security income beneficiaries will be given the opportunity to participate in a pilot project for direct deposit of their monthly checks to banks or thrift institutions, in the first phase of a nationwide program to convert such Government payments to an electronic funds transfer system.

The new program was announced jointly today by the Treasury, the Social Security Administration and the Federal Reserve System. Public Law 92-366, authorized the new program; Treasury issued regulations in the October 4, 1973 Federal Register to implement that Law (31 CFR Part 209 at 38 F.R. 27521).

Treasury prepares and mails 27 million social security checks and 3.5 million supplemental security income checks for delivery by the U.S. Postal Service during the first few days of each month.

Under the program, to be initiated in Georgia this November, beneficiaries have the option of having their monthly checks sent directly to their bank or thrift institution for credit to their accounts, or continuing to receive checks at their residences. The program is completely voluntary.

Advantages to the beneficiary of the "Direct Deposit" arrangement, according to a Treasury-Social Security report, include (1) reduced possibility of loss, destruction, theft or forgery of the check; (2) elimination of the inconvenience and problems of getting the Federal check cashed; and (3) assurance of uninterrupted deposits during periods of relocation or temporary absence from their place of residence.

The report also indicated that four out of five social security beneficiaries already have checking or savings accounts.

The Direct Deposit arrangement will be implemented in several stages, with complete conversion by the end of 1976 to the nationwide electronic funds transfer system planned by Treasury and the Federal Reserve System.

Representatives of the national trade associations for the commercial banks, the savings and loan associations, the mutual savings banks and the credit unions, together with representatives from the concerned Federal regulatory agencies, have been meeting monthly with officials of

Treasury, Social Security Administration and the Federal Reserve in a cooperative effort to evolve an effective Direct Deposit System.

For the 700,000 beneficiaries in Georgia, Treasury will enclose information with the checks to be delivered the first few days of November. The pilot operation in Georgia will be evaluated for several months before Stage II is started.

Stage II will involve extending the pilot operation to the State of Florida. All 1.4 million social security and supplemental security income beneficiaries in Florida will have the opportunity of opting in April 1975 to have their payments sent to financial organizations. Treasury will enclose explanatory information with the checks to be delivered during the first few days of April.

Stage III will begin in July 1975 when the new Direct Deposit System goes nationwide. All social security and supplemental security income beneficiaries throughout the country will be informed of their option to have their payments sent directly to financial organizations. Stage III will span the months of July, August and September 1975.

In Stages I, II and III, the new procedure will involve the use of an especially designed direct deposit authorization form, Standard Form 1199, which will replace the current Standard Form 233 special power of attorney. This new form will be made available, on a geographical basis, in advance of the start of each new stage. The forms will be distributed to financial organizations and to field offices of the Social Security Administration. In addition, consideration is being given to enclosing the direct deposit authorization form with the informational data sent with the checks to the beneficiaries.

Treasury officials have stressed to representatives of the national trade associations the importance of a smooth transition to the Direct Deposit System and have emphasized that individual financial organizations should not "jump the gun". Promotion of this program outside of the pilot area of Georgia will result in significant problems for the Government and confusion for the beneficiaries. If any powers of attorney are prematurely granted to the financial organizations by the beneficiaries, the new direct deposit authorization form, Standard Form 1199, will have to be reexecuted at the time the program is extended to other areas of the country. Promotion of the pilot program in Georgia must coincide with the distribution of the supply of new authorization forms to financial organizations and Social Security field offices. This will occur in late September 1974.

The new direct deposit authorization form is designed with simplicity in mind. A beneficiary who wishes to participate will complete the top half of the form and then take it or mail it to the financial organization of his choice. The financial organization will complete the bottom half of the form and send it to the local Social Security field office. Instructions for completing the form are printed on its reverse side.

91

Stage IV will be a pilot electronic funds transfer system. It will be conducted in the States of Georgia and Florida, commencing during the latter half of 1975 or early in 1976. Treasury will provide payment information in the form of magnetic tape to the Federal Reserve System.

The Federal Reserve will relay the information through their existing communications network and distribution system to the Federal Reserve office nearest to the beneficiary's designated financial organization. From this point the payment information will be distributed by electronic or paper media through the local Federal Reserve office's established distribution system to the financial organization. The pilot system will be operated for several months before extending it to other areas of the country.

Stage V will be the initial conversion of social security payments, for those beneficiaries participating in the Direct Deposit System, to a nationwide electronic funds transfer system. Treasury and Federal Reserve plan to complete this conversion by the end of 1976.

Treasury will soon commence planning with the Veterans Administration, Railroad Retirement Board, and the Civil Service Commission to lay the groundwork for extending the Direct Deposit System to their recurring monthly payments.

oOo

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

92

FOR IMMEDIATE RELEASE July 23, 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 August 1, 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 May 2, 1974, and to mature October 31, 1974 (CUSIP No. 912793 UW4), originally issued in the amount of $1,802,275,000 (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 August 1, 1974, and to mature January 30, 1975 (CUSIP No. 912793 VT0).

The bills will be issued for cash and in exchange for Treasury bills maturing August 1, 1974, outstanding in the amount of $4,306,835,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,532,880,000. 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, and in book-entry form to designated bidders, 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 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

(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 August 1, 1974, in cash or other immediately available funds or in a like face amount of Treasury bills maturing August 1, 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

93

FOR IMMEDIATE RELEASE July 23, 1974

CONDITIONAL DETERMINATION OF NO BOUNTY OR GRANT ON COLOMBIAN CUT FLOWERS

Assistant Secretary of the Treasury David R. Macdonald announced today a Conditional Negative Countervailing Duty Determination in the investigation by the Customs Service and Treasury Department into imports of cut flowers from Colombia. The determination will become final 30 days after publication in the Federal Register in the absence of published notice to the contrary.

A notice of formal investigation was published March 8, 1974. During the course of the investigation it was ascertained that payments were being made by the Colombian Government "which would have constituted a bounty or grant of 10.2 percent of the dutiable value of the flowers." However, after discussions between the United States and Colombian governments, during which U.S. Treasury representatives presented detailed explanations of the countervailing duty law and its application to this set of circumstances, the Colombian Government determined to eliminate the countervailable payments by retaining them within the control of an agency of the Colombian government. Accordingly, on July 17, 1974, the President of Colombia signed the decree necessary to accomplish this objective.

Because the Colombian Government very recently made this determination, an opportunity for interested persons to comment on it will be afforded before the Treasury determination becomes final.

In making the announcement, Assistant Secretary Macdonald noted: "We appreciate the cooperative attitude of the

(OVER)

Colombian Government in this matter. We believe that the action to eliminate the subsidy is the best possible solution to the cut flower problem and sets an example for resolving foreign bounty/countervailing duty issues generally. Hopefully, over the long term, the general question of subsidies will be resolved by multilateral trade negotiations. In the short term, however, the law must be administered with as much dispatch as is possible, given the need to ascertain the exact nature of the foreign programs involved, and to communicate our conclusions to foreign governments."

Notice of the determination will be published in the July 24 Federal Register. During calendar year 1973 the approximate amount of imports of cut flowers from Colombia was $8 million.

o 0 o

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

99

MEMORANDUM FOR THE PRESS July 22, 1974

Attached for your reference is some material on Secretary of the Treasury William E. Simon's visit to Kuwait, July 21-22, 1974.

oOo

95

ARRIVAL STATMENT BY
TREASURY SECRETARY WILLIAM E. SIMON
AT KUWAIT AIRPORT, KUWAIT
JULY 21, 1974

I am honored to have this opportunity to visit the state of Kuwait for the first time and also to be the first American Secretary of the Treasury to do so. In planning my trip to the Middle East, I wanted very much to include Kuwait in my itinerary, given the important role Kuwait plays in international monetary and energy matters.

I am looking forward to what I am sure will be friendly and useful discussions with his highness, Shaikh Jabir, Foreign Minister Shaikh Sabah, my distinguished counterpart Abdul Rahman Atiqi, and with other Kuwaiti officials. I am well aware of Kuwait's economic and social progress, its advanced financial institutions, and its responsible fiscal policies. I am also aware of Kuwait's potential as an important industrial center and recognize its cooperation in support of international development assistance -- particularly through the Kuwait Fund.

In view of the close and growing relations between our two countries, I believe that it is in our mutual interest to exchange views with our Kuwaiti friends as often as possible and on as high a level as possible. But in addition to official consultation, the purpose of my visit is to convey to the people of Kuwait the continuing friendship, interest and good will of the people of the United States. I am here to become acquainted and to listen and to learn. I view this visit as an opportunity to expand my association with and knowledge of the Arab world.

Highlights of brief question and answer session with press:

QUESTION: I have some questions representing my colleagues, the pressmen in Kuwait. First question, we have heard a lot about the high prices of oil in the States and in Europe, but we didn't see anything about the relationship of the high price of oil to the high price of manufactured goods. Can you tell us if there is an intention to make equations between the price of oil and the prices of industrial goods?

SIMON: It is important to understand one thing: that I did not make this trip to the Mid East to negotiate or to talk solely about high oil prices. I think the world is generally displeased, to put it mildly, with high prices and the inflation problem over all. Oil has made its contribution, there is no doubt, to the inflationary problem worldwide, and this makes it quite evident that what we must do, as a world and each country in particular, is to get about the problem of attacking the causes of inflation instead of the results, and putting our monetary and fiscal houses in order to achieve that result. It is only then that we can look forward to a slowing, and hopefully ceasing, of this price fire which has affected so many countries of the world.

QUESTION: A statement made today by Minister Yamani of Saudi Arabia says that an oil embargo may be imposed once again if Israel doesn't withdraw from Arab territories, and there is something related to the business of oil. Can we have an idea of your excellency about this subject since you have come from Saudi Arabia?

SIMON: In my discussions with Minister Yamani, it was never brought up -- the subject of the reimposition of the embargo. Now during the press conference yesterday -- the exact words I have not read yet -- so I would urge you to get from my press secretary the exact verbiage of what the requirements were and if in the future the Mid East settlement and the specifics that you mentioned were not met, then this would be considered. I don't have the specifics on that. But the point of the matter is that my visit is consistent with the diplomatic efforts on the part of President Nixon and Secretary Kissinger to insure a just and lasting and durable peace in the Mid East; and there can be no peace, there can be no economic development and progress in this area without peace, and that is what we strive for.

QUESTION: Shaikh Yamani has suggested in one quote that the United States is not putting enough pressure on Iran to get lower oil prices. Do you believe in that? What would be your reaction?

SIMON: I prefer to always allow a marketplace to function, and when we see, as you mentioned before, the higher prices in all goods in the world due to that terrible tax of inflation which acts so regressively on the poor in particular -- let's just take the issue of food, which is one of the major problems or has been a major problem. The price of food exploded due to circumstances which one might say were out of anyone's control, and that was due to the

96

horrible winter during 1972 and the consequent extraordinary demand that was brought about by a simultaneous boom going on in all the industrialized countries of the world. Well, the prices obviously shot up. We increased our production. We removed what we call a "set aside," which is the acreage the government held in reserve, and we released that, and now we're going to have a record harvest. In anticipation of this record harvest, we have seen wholesale prices in our commodity area decline substantially in recent months. This is the way a market functions.

I would like to see lower oil prices because I think they are unmanageable as far as the lesser developed countries of the world are concerned. And it's wreaking havoc with some of these economies where these nations cannot afford it. And we're working through the International Monetary Fund in ways that can assist these countries.

QUESTION: Mr. Secretary, could you say how far engulfed you were in discussions in Saudi Arabia with the principal that Saudi Arabia might take up a special issue of United States Treasury securities? A figure has been mentioned of about ten million dollars.

SIMON: Any figures that are ever mentioned or were mentioned by us were just for illustrative purposes. The idea of special Treasury securities is not a new idea. We have over twenty-six billion in special issue Treasury securities outstanding at the present, twenty billion of this with Germany. And we presented a comprehensive proposal that illustrated the various special issues that they could take advantage of if this is the way they wished to invest their funds. They have the advantages of not appearing in the marketplace and thereby depressing the price when they go to sell, and conversely, raising the price when they wish to buy, and the additional advantage of having to place the securities with us on two-days' notice in the short area, and on sixty-days' notice in the longer maturity area, which gives them really instant liquidity for large amounts of investment, which many times the marketplace cannot provide.

QUESTION: Are you likely to make similar proposals here?

SIMON: We have, as I say, these special issues which have been in existence for a long period of time, and we would be delighted to discuss special issues. We have them outstanding with many countries.

oOo

97

JOINT PRESS CONFERENCE BY
TREASURY SECRETARY WILLIAM E. SIMON
AND
KUWAIT'S MINISTER OF FINANCE AND PETROLEUM
ABDUL RAHMAN ATIQI
AT KUWAIT AIRPORT, KUWAIT
JULY 22, 1974

SIMON: It seems I've just arrived in this country five minutes ago, and we must now depart, sadly, because we've had very frank and wide-ranging discussions on a broad menu of issues. In these frank discussions it's important to understand, because sometimes it is misinterpreted: just because we do, in certain areas, have a disagreement or a difference of opinion on substance, that doesn't mean that this disagreement in a particular area is done with any acrimony whatsoever. It's done in an attempt to have a useful dialogue on our opinions and on our very strong interests in the areas that affect every country in the world. And more importantly, I think it's important to emphasize the many areas where we do have complete agreement and where there are many areas where we can work together which were also discussed.

Obviously, in the very brief period of time that I have been here, it is impossible to enter into the substantive dialogue that we will in the future. I have extended on behalf of the President an invitation to His Highness to visit our country in the near future, and I will certainly hope that at that time, or before if I return to the Mid East, that we can continue with these discussions. Mr. Minister.

ATIQI: Definitely we here in Kuwait are very happy to receive Secretary Simon in Kuwait, and we are very glad for this occasion. Secretary Simon is the first Secretary of Finance to visit Kuwait during the life of relations between Kuwait and the United States.

To have good relations with a country does not mean that there is no area in which we disagree. There are areas in which we do fully agree and there are some areas in which we disagree. This is a healthy situation. By exchanging points of view, we cancel a lot of problems, which leads to a better understanding between our two nations and which might also lead to a better understanding for us and for others.

We do appreciate the role that the United States is playing for the peace in the world, especially at the time of President Nixon. We welcome this visit, as I say, to exchange points of view on various aspects, and I hope that these points which we have discussed will lead to fruitful benefits in the future for our two countries and for the rest of the world.

QUESTION: Mr. Simon, have you suggested to Kuwait to buy American bonds with a view to invest surplus oil revenues?

SIMON: One of the subjects that we discussed yesterday was the potential investment and the opportunities that existed in the purchase of U.S. government securities, and we discussed this at some length. We did not make a definitive proposal, but rather explained the various types of securities that could be purchased which present great advantages on a direct basis with the United States government versus going into the marketplace to purchase these securities.

QUESTION: Mr. Secretary, there was an illustrative figure on those same discussions with Saudi Arabia. Do you also have an illustrative figure on these discussions?

SIMON: The illustrative dollar numbers that are used are purely illustrative, and actually we make no recommendations as to amounts. The amounts are determined by the investor always because he knows what his priorities are and when he indeed will need the monies and then, of course, maturities can be set to meet these priorities. So this was just explained in some detail because it is a complex issue. The varieties of advantages in the special issue of Treasury securities that are not extant in the marketplace in particular offer a protection to a government that does not exist in the other area.

QUESTION: Can I ask Minister Atiqi whether he expressed to you any interest in investment in United States equities in particular companies. I am speaking of substantial equity holding and whether he raised the problems that this might entail.

ATIQI: We didn't raise points in detail the way you are asking. Kuwait has already had its trustees to invest in the United States, not that it is not new. Since the days we got money more than 15 years ago, we have had our trustees in the United States to invest for us in various aspects: in bonds, in equities, in real estate. We have started very small and we are growing up gradually. Well, when the time comes that we have a real substantial amount in the United States, then we might go deeper into discussions about this. Now we are just discussing broad lines.

98

SIMON: And let me add something to that, that it is not proper for the Secretary of the Treasury, or indeed any government official to offer specific equity securities in our marketplace. Where the subject of securities comes up, the Kuwaitis are well aware of the opportunities in the American capital and equity markets. We will respond to specific questions about the technicalities of the marketplace and what exists, but as far as the Secretary of the Treasury or any officials offering equity securities, that would be highly improper.

ATIQI: Especially in a free market like United States.

QUESTION: Mr. Minister, did you find at all persuasive the point I'm sure the Secretary made to you, because he's made it elsewhere, that it is in the interests of the oil-producing countries as well as the oil-consuming countries that the prices of oil be made lower than they are now?

ATIQI: Well, this is one of the areas which neither His Excellency, the Minister, can persuade me or I can persuade him. We exchanged points of view on impact of oil prices on the world, but neither was he able to persuade me nor I to convince him of my own feelings. For this is an international problem, not only one country has to solve it or to carry the burden of solving it. Inflation and what comes out of inflation is an international problem and it is not for one country to solve it. I can't expect that, but we have exchanged points of view.

SIMON: And that is the important thing to understand, that as a colleague, a fellow finance minister in this great union of finance ministers, there are many areas where we can have differences of opinion. It's done in a friendly, frank, forthright fashion, and we will continue these dialogues. This is just the first discussion of many in the future.

QUESTION: Mr. Secretary, we were told last night that Kuwait is anticipating investing in research in nuclear energy in partnership with developed countries shortly. Was this discussed in any way during your stay here?

SIMON: The Minister and I did not discuss anything specifically in that area.

QUESTION: Do you think your visit to the Middle East countries was a success?

SIMON: Yes, indeed, I consider it a success. I think the most important thing between peoples in this world must be communication -- frank, open discussion of all the issues in this world that has shrunk to such a degree that we all recognize the importance and the interdependence of countries upon each other. And the constant communication and dialogue of all the problems that affect each one of us must continually be discussed in a very open fashion. So, in this regard, this my first visit to the Middle East, we have accomplished this to my total satisfaction and I look forward to returning in the very near future to have further discussions and be able to stay for a longer period of time.

oOo

99

WARREN BRECHT

ASSISTANT SECRETARY FOR ADMINISTRATION

CUSTOMS SERVICE EQUAL OPPORTUNITY CONFERENCE

July 10, 1974

DEPARTMENT OF THE TREASURY

10

WARREN BRECHT: I am delighted to join this group of Customs Headquarters managers and supervisors again this morning to talk about equal employment opportunity, what we're doing in the Department and what you're doing in Customs.

When Dave Sawyer got the invitation for one of us to speak to this group on two different sessions, oh, a couple months ago, Dave asked me whether he wanted -- whether I wanted him to take it or whether I wanted to do it myself, and I indicated to him that if my schedule permitted, I would very much like to address this audience myself.

As some of you may know, the equal employment opportunity program, the responsibilities of that program were transferred to me less than a year ago. They used to be under the general counsel. And I've taken these responsibilities seriously, and so therefore [brief interruption in recording]...service.

Back in February of this year, I had the opportunity to speak at the Customs Region Two seminar for managers and supervisors in New York City, and at that time I was impressed that management, both in that region and also the management here in the headquarters, was most eager to make sure that all of the officials within the Department and within the Bureau were aware of their official and personal responsibilities to make sure that the Customs equal employment program was really moving ahead toward the goal of real equality of opportunity in every phase of your operations.

Before getting into the specifics of Customs' EEO program, however, I thought you might be interested in knowing what we're doing in the Treasury Department as a whole. Now while we can never be fully satisfied with progress in this area, I am impressed with Treasury's progress over the past five years, and we're talking a period from November 1968 to November 1973, which is the latest date for which we have statistics.

Looking first at blacks, we have experienced an increase from 11,800 to 16,800, which is an overall rise of 5,000 black employees in the Department, and this represents an increase of 42%.

The improvement in Spanish-surnamed hires has been even more impressive, an overall increase of approximately 2,000 employees, jumping from only about 1,000 in 1968 to about 3,000 by the end of 1973, or an increase of about 200%.

More important, there has been progress in the upper grade levels over the past two years. So, for example, the employment of blacks in the GS-9-to-12 group has risen from 1150 to 1750 over the past two years, and for Spanish-surnamed we have achieved an increase from 330 to over 700. And similarly, in the GS-13-to-18 grade range, blacks increased from 150 to 350, or more than double, over the past two years; and Spanish-surnamed moving into the highest grouping jumped from only 35 to 120.

Turning for a moment to women, women comprise about 44% of those employed in the General Schedule positions in Treasury. There have been slight percentage gains in the employment of women in the GS-9-through-12 group, and there are 62 more women in the GS-13-to-15 range than there were the previous year. We've not done so well in the supergrade area for women, I'm sorry to say, and so the women's program is one area that I am not satisfied with at this point. And one of my goals, and I hope one of yours, will be to make ever effort in fiscal-1975 and beyond to increase the percentage and number of women in top jobs in the Treasury Department.

We still have much more to achieve, as I am continually reminded by Senator Montoya and Congressman Roybal at our annual appropriation hearings. Yet I am pleased, as they are, to see the positive accomplishments to date and the meaningful and higher goals being set for the future. I will comment on this further later on in my talk.

I should also take note of the commitment of top management in the Treasury to the EEO program, starting with Secretary Simon himself. The Secretary is committed to equal opportunity. He recognizes that we have made some real strides in this area, but he stresses his personal interest and concern for assuring that everyone gets a fair shake in their employment status with Treasury.

And, of course, former Secretary George Schultz had a commitment that was of a long-standing basis. He promulgated the concept of affirmative action while he was the Secretary of Labor, and while the Director of the Office of Management

102

and Budget, he promoted the idea of good staffing of equal employment programs and he supported and promoted the idea that government agencies should get the necessary budgetary resources to do a meaningful job.

The 1975 Affirmative Action Plan for the Department was recently forwarded to the Civil Service Commission, and I know that you will be developing your Bureau's plan sometime this month. We have just received the Commission's approval, July 1, of the departmental plan. In approving our plan, the Commission offered the opinion that they thought the plan was much better developed than it was the previous year.

I'd like to particularly emphasize one aspect of the Affirmative Action Plan, and that is the plan that we'll be developing during this year for upward mobility for minorities and women. Now this is not a new concept in the Treasury or certainly not a new one in Customs. But I think what is new is that we are developing a systematic Department-wide approach, putting more muscle behind it, and hopefully incorporating opportunities for many more of our people in the lower grades, and providing counseling skills, basic training, tuition refunds and -- to college [unintelligible] -- to many of our employees.

Well, so much for the departmental overview. I'd like to turn now to the EEO progress, plans and accomplishments and activities in the Customs Service.

As I look at the latest statistics for minorities employed in Customs, again I am impressed. From 1972 to 1973, Customs had an overall decrease of 500 people in their employment, and yet, despite the overall decrease, minority employment gains were achieved. For example, blacks rose from 1250 in 1972 to 1290 in 1973. Spanish rose from 650 to 860. Orientals rose from 140 in 1972 to 260 in '73. American Indian employment stayed about the same at a fairly low level. But I am pleased to note that since the last statistics were prepared at the end of 1973, Customs has stepped out and hired some Papago Indians along the Mexican border to serve as CPOs.

As I commented earlier about the upper mobility for the Department, a review of progress from '72 to '73 also shows some nice gains within the Customs Service. So, for example, while there were 7 fewer blacks in the GS-5-to-8 group from '72 to '73, there was an increase of 48 in the 9-to-12 range, and a slight increase in the upper categories.

Spanish employment, which I indicated took a big jump, again, the biggest single jump was in the GS-9-to-12 range where there was a net increase of 121.

As I see it, all this is a positive trend, and I'm sure that future tallies will show even higher gains.

I'd like to talk a little bit about this conference and what this is all about, looking ahead. It seems to me that the idea of an EEO Conference for managers and supervisors is commendable. This is your chance to assess how your EEO program can become even more effective, and also it gives you the opportunity to discuss how to develop better techniques and equipment, training, and management of your personnel.

As managers and supervisors, you are the key link as to whether Customs' Affirmative Action Plan is a mere paper plan or whether it really achieves its goals.

I've had a chance to review with Dave Sawyer the Customs' Affirmative Action Plan that was put together for this past year and some of the plans of your Regions. Overall, you are to be commended. Mr. Sawyer agrees with me that some of the plans that you have developed to date have been among our more comprehensive plans received in the Department. These plans can serve as models for other Regions and other Bureaus.

For example, many career ladders are clearly defined. Time is provided for the subject of equal opportunity in orienting new employees and also in providng courses for supervisory and personnel management training. A sincere effort is being made to insure that recruitment activities reach and attract job candidates from all sources. The summer-aide, stay-in-school, and work-study programs are impressive in a number of cases. And, very important, the plans call for regular assessments and reviews to determine whether Customs' objectives are being realized.

Now these are just a few of the examples of what we mean by some meat on these plans.

I've also received good reports from Dave Sawyer about the kinds of relationships many in Customs have established with various educational institutions and organizations dealing with minority groups, groups such as the Urban League, the NAACP, the League of United Latin-American Councils, and various women's interest groups. And, as I've already indicated, I'm particularly interested in what you're doing in the upward-mobility program.

I'd like to talk a little bit more about upward mobility at this point. I don't know exactly what the statistics are in terms of your overall employment in Customs, but I suspect that they're not that different than the Department figures. In the Treasury Department, over 60% of our people are in the GS-1-through-7 grades, which is the target area for the upward-

104

mobility program, at least initially. And therefore, it seems to me that the upward-mobility program has got to be of real interest to a great many of our employees, and I think we will find many interested qualifiable and trainable minorities and women on our staff -- on your staff to move into areas of training for more responsible and better paying jobs.

All right, so much for the employees.

And I think the upward-mobility program is equally important to management, both to Customs and Treasury and the government at large. Any of you who have been involved in the budgetary process, either up at the Hill or just in terms of putting together your own budget, and finding that invariably you don't get all that you asked for and all that you probably could legitimately use, productively use, if given the full resources -- this is a fact of life. If you take a look at the Treasury Department as a whole, about 83% of our total costs, the total budgetary costs, are people costs, and I suspect the same ratio is probably pretty close to that in Customs.

So it seems to me that if given the fact that you can't get all the people and all the resources you'd really like to do your job in an optimum way, then it becomes doubly important that we take the resources that we have and make sure that we are developing these people and providing them challenging careers, and at the same time, enabling us to carry out the mission of the agency more efficient -- efficiently and effectively.

Turning to women's programs, I am aware of your ongoing activities to assure that women are treated fairly on the ladder of equal opportunity and that they're given a fair shake at job bidding, training, selection, and promotional opportunities. I was impressed, for example, with the program that your New York Region put on. It's one of the first in government to conduct a women's day which provided counseling and interviewing for many who attended.

As I mentioned to the group on Monday, we hope to put on our first departmental women's day hopefully some time later this fall. We're just in the very early talking stages at this point, so I'm almost reluctant to bring it up. But I feel compelled to at least to this group that this is very much on our mind, and we are going to do it and hopefully we're going to do it this fall. And I would hope, as has been the case in other departments, that whatever we do as a department overview, that it can be a coordinated effort and that each of our bureaus can tie into it and also carry on whatever suits their particular needs at the same time.

105

And so, as managers and supervisors, we, you and I, are the keys to effective equal employment opportunity. As managers and supervisors, we have important personnel management responsibilities, and this includes working with our employees to prepare realistic training and developmental plans for them.

In closing, I would like to leave you with several facts.

First, EEO sometimes is thought of as a can of worms. We hear a lot about grievances, lack of progress and so on. I think it's important that we think positively and we focus on the good things we're trying to do and on the successes that we have achieved to date. We must recognize that we can't turn things around overnight, but those of us in management must make clear our serious intent. We need to talk it up.

Second, EEO and various other special-emphasis programs should be viewed as parts of a comprehensive personnel program. Otherwise, we can't see the forest for the trees. And that's why it is so important that the EEO compliance people and the personnel people work hand-in-hand at the departmental level and on down to the bureaus and into the field organizations. Incidentally, this was one of the major reasons why the departmental equal employment compliance program was transferred under my responsibility. Since I already had the Office of Personnel, it was natural that these two had to work very closely together, and by putting the two offices under my responsibility, I think that in fact, over the past 6-to-9 months, we have established a closer working relationship than had been the case prior to that.

The third point I'd like to leave with you in closing, I'd like to talk a little bit about Commissioner Acree, and I understand Commissioner Acree, John Hurley and others are off doing battle at the Hill this morning, testifying on the Mexican border activities before one of the Government Operations Committees, something that's of great interest to, I'm sure, all of you, and it certainly is of interest to me.

But getting back to Commissioner Acree, I know that he believes very strongly in the equal employment program, and he expects a commitment from each of you in implementing the equal opportunity program in Customs.

As just one example of the Commissioner's efforts, shortly after he became Commissioner two years ago, he had to deal successfully and very promptly with a very difficult morale problem along the Mexican border, particularly in the San Isidro area. I think if each of us can measure up to his high standards, we'll be well along in what we're trying to do.

106

My final comment. I earlier commented on reminders from Senator Montoya and Congressman Roybal and the proddings we get from them during our annual appropriation hearings. Well this year, Senator Montoya publicly commended Secretary Simon for the Department's achievements in the area of Spanish-speaking employment. And those of you in Customs certainly helped to get us this pat on the back.

And then I later learned that just before our House appropriation hearings, Congressman Roybal complimented Customs and the Department for our equal employment efforts.

These kinds of compliments don't come easily in this area. A few lines from Congressman's Roybal makes a fitting closing statement, and I quote:

"May I point out that this is the one agency of government that has made the most progress in the last three or four years in hiring of Spanish-speaking personnel. You have made a tremendous amount of progress and you are doing an excellent job. I would like to take this opportunity to compliment you and the Customs Service for the most excellent job that you have done up to this time.

"When I first came to this committee, I was quite critical of the fact that not enough progress was being made. I thought it would take more than three years for me to compliment you on this progress. You are the one department that comes before this committee that I can truly say has put a great deal of effort into an affirmative action program and has definitely succeeded." End of quotation.

Well, we can't rest on our laurels. We've got to keep moving ahead. But it's still good to hear such words of praise once in a while. So let's continue the good work, and good luck to you and good luck to this conference.

Thank you.

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

FOR RELEASE UPON DELIVERY

107

STATEMENT OF THE HONORABLE EDWARD C. SCHMULTS
UNDER SECRETARY OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
OF THE
SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
WEDNESDAY, JULY 24, 1974, 10:00 A.M.

Mr. Chairman and Members of the Committee:

I am pleased to testify before you this morning. I understand that we are to discuss the current disintermediation situation and attempt to place into some overall perspective the recent issue of variable interest rate notes by Citicorp.

As you know, the Administration has opposed legislation intended to prohibit issuance of variable interest rate notes. Among our reasons for doing so is our belief that such a prohibition would simply extend the inequitable principle that smaller savers must bear the costs both of subsidizing borrowers and protecting financial institutions from the defects in our financial system. We feel that the responsibility for national priorities, such as aiding the housing industry, should be born by the nation as a whole and not by a single group -- our savers. We also believe there are other ways to assure the continued solvency of the thrift institutions than taking a

WS-69

backward step toward greater regulation of private financial decisions.

The Citicorp note offering is the latest manifestation of the problems created for our financial institutions by inflation on the one hand and by rigid rules regarding the asset and liability structure of these institutions on the other. We are again in the middle of a familiar situation which exists each time the monetary authorities are called upon to use tight money to fight inflation. First, market interest rates rise above those permitted under Regulation Q ceilings, and depositors withdraw funds from traditional intermediaries -- banks and thrift institutions. Federal agencies are then called upon to increase their loans, for example, to thrift institutions. These agencies then must borrow the funds in the capital markets thereby adding to upward interest rate pressures which cause further disintermediation and so forth. This is the now familiar dog chasing his tail syndrome to which Secretary Simon has often referred.

What Citicorp apparently set out to do was to attract the pool of savings of older, modestly affluent savers who have managed to acquire some reasonable amount of financial assets and who actively seek the best return available consistent with the liquidity and soundness of the investment.

Table 1, attached, illustrates this point by presenting the income and age distribution of holders of savings accounts, by size of account, for 1971. Table 2 documents the increasing willingness of households to shift from time deposits to alternative, higher yielding assets. Table 3, covering the period January 1973 through March 1974 illustrates the increasing attraction of liquid, high yielding assets such as Government securities.

Thrift institutions and commercial banks have greatly aided the increasing sophistication of savers by focusing on interest return principally through the promotion of certificates of deposit. Insignificant only ten years ago, these account now for more than half of time and savings deposits at all savings and loan associations and commercial banks, and over 25 percent of those at all mutual savings banks. Although certificates were initially advantageous to these institutions, allowing them to segment their markets and increase their return, they encouraged the growth of a class of savers relatively more aware of financial market developments and more willing to respond to them. The very success of the instrument defeated its purpose as a means of assuring deposit stability, since there are always sufficient certificates maturing at critical periods to impose some stress on the system.

In short, the savings market is now more competitive than ever and likely to become more so. Opposition to variable interest rate notes will not change this fact or abate the inequity which encouraged the Citicorp note offering in the first place. As long as the market pressures exist, new attempts to tap the artificially cheap source of funds will be made.

A second basis for our opposition was that the proposed legislation discriminated against bank holding companies without addressing the basic problem of potential non-bank competition for savings deposits. High interest rates on new corporate issues, especially regulated utilities, will make an appraoch to smaller savers attractive to a wider and wider range of businesses -- with or without a variable rate feature.

A third objection is that legislation prohibiting such issues would lead, sooner or later, into direct involvement in the private decision making process at the corporate level by the Government, and the setting up of a bureaucracy engaged in capital control. We expect that this would work at least as badly in capital markets as price controls have worked in the industrial and farm product markets.

In sum, we oppose interference in the market because it is discriminatory and counterproductive. Inflation is the cause of the high interest rates which lead to disintermediation and distress in our financial system. By attempting to contain only the symptoms, we might cause great damage to our financial system and to the normal modes of financing.

109

We need instead a restructuring of the system, so that it will efficiently respond to external forces without disruption and without the need for frequent support by the Government.

We believe, therefore, that S. 2591, the Financial Institutions Act, is the right approach for the long run and that temporary measures to deal with the exigencies of the present situation should be consistent with the philosophy of that Act.

It is by relaxing and removing restrictions on the activities of savings and banking institutions, and by eliminating self-defeating regulatory measures -- such as ceiling rates for time deposits and maximum nominal rates on guaranteed mortgages -- that we will assure the strength and continuing viability of these institutions and an adequate flow of savings to meet our capital needs, whether for housing, large or small business, agriculture, consumers, or state and local governments. It is this type of approach -- one that will reduce the ultimate need for Government supervision and control -- that I wish to commend to this Committee.

There is no question about the fact that the Financial Institutions Act is the long-term solution to the problem.

However, in the short-run, disintermediation is a problem. We have concluded that legal prohibitions are not the answer but that Federal loan assistance through the Federal Home Loan Banks selectively to institutions facing serious problems of disintermediation, should be the principal line of response to current problems. We would also like to consider with you whether it may not be desirable to support some lending through the Home Loan Banks for a temporary period at rates below current market rates to insure that some thrift institutions which may be in particularly unfavorable positions may make use of such assistance. Finally, to limit the danger of further disintermediation from the thrift institutions, in view of the higher interest rates generally prevailing in the market, we are inclined to believe that a change in Q-type regulations should be considered which might allow thrift institutions and banks to compete more effectively with the type of securities proposed by Citicorp.

The banks and thrift institutions would have one valuable advantage in this competition, that is deposit insurance which makes these investments Government guaranteed.

The most basic consideration which has entered into our conclusion that Federal assistance rather than restrictive legislation should be the governmental response to the current difficulties of some thrift institutions is that we do not believe that in these difficult, inflationary times the saver should be forced to bear the burden created by the unwise restrictions which the Government has kept riveted on financial institutions.

Thank you, I will be happy to respond to your questions and comments.

(116

TABLE 1

SAVINGS ACCOUNTS[a] BY INCOME AND AGE - EARLY 1971

(Percentage distribution of families)

	Savings Accounts					
	None	$1 -499	$500 -1,999	$2,000 -4,999	$5,000 or more	Total
All families	38	15	18	11	18	100
Total family income						
Less than $3,000	68	5	9	12	6	100
$3,000-4,999	54	11	14	4	17	100
$5,000-7,499	46	15	14	9	16	100
$7,500-9,999	43	17	18	9	13	100
$10,000-14,999	26	21	27	12	14	100
$15,000-19,999	13	19	29	15	24	100
$20,000-24,999	15	14	17	18	36	100
$25,000 or more	10	2	6	23	59	100
Age of family head						
Under age 25	44	30	29	5	1	100
25-34	44	19	20	11	6	100
35-44	38	19	26	10	7	100
45-54	35	16	14	12	23	100
55-64	34	7	14	14	31	100
65-74	35	2	14	15	34	100
75 or older	36	*	12	10	42	100

a Including certificates of deposit.
* Less than 0.5 percent.
Source: 1971-72 Surveys of Consumers. Ann Arbor: Survey Research Center, University of Michigan, 1973.

TABLE 2

SELECTED HOUSEHOLD FINANCIAL ASSETS 1965-1974I

	Dec.31,1965	Mar.31,1974	Change	%
Demand deposits	94.2	162.6	68.4	73
Time deposits at commercial banks	115.9	299.4	183.9	158
Deposits at thrift institutions	171.6	358.7	187.1	109
U.S. Government securities	81.8	114.2	32.4	40
State and local bonds	36.4	48.0	11.6	32
Corp. and foreign bonds	13.4	56.9	43.5	325
Corp. equities	636.7	954.5	317.8	50
Total financial assets	1,463.6	2,560.2	1,096.6	75

Source: Federal Reserve Flow of Funds Accounts.

TABLE 3

SELECTED HOUSEHOLD FINANCIAL ASSETS 1972-1974I

	Dec.31,1972	Mar.31,1974	Change	%
	(Billions of dollars)			
Demand deposits	156.5	162.6	6.1	4
Time deposits at commercial banks	248.6	299.4	50.8	20
Deposits at thrift institutions	319.9	358.7	38.8	12
U.S. Government securities	92.2	114.2	22.0	24
State and local bonds	46.0	48.0	2.0	4
Corporate and foreign bonds	54.8	56.9	2.1	4
Corporate equities	967.3	954.5	-12.8	-1
Life insurance and pension reserves	452.9	490.9	38.0	8
Total financial assets	2,413.1	2,560.2	147.1	6

Source: Federal Reserve Flow of Funds Accounts.

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

112

FEDERAL FINANCING BANK, WASHINGTON, D. C.

FOR RELEASE 6:30 P.M. July 23, 1974

RESULTS OF FEDERAL FINANCING BANK BILL AUCTION

Tenders for $1.5 billion of 244-day Federal Financing Bank bills to be dated July 30, 1974, and to mature March 31, 1975, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS: (Excepting 1 tender of $10,000)

High -	94.676	Equivalent annual rate 7.855%
Low -	94.480	Equivalent annual rate 8.144%
Average -	94.545	Equivalent annual rate 8.048% 1/

Tenders at the low price were allotted 39%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted
Boston	$ 113,375,000	$ 52,975,000
New York	2,739,020,000	1,165,720,000
Philadelphia	87,690,000	48,990,000
Cleveland	114,885,000	8,475,000
Richmond	76,210,000	8,200,000
Atlanta	19,430,000	3,680,000
Chicago	660,600,000	62,340,000
St. Louis	21,605,000	5,405,000
Minneapolis	74,905,000	29,705,000
Kansas City	59,990,000	24,870,000
Dallas	32,045,000	12,045,000
San Francisco	320,305,000	77,605,000
TOTALS	$4,320,060,000	$1,500,010,000 2/

1/ This is on a bank-discount basis. The equivalent coupon-issue yield is 8.54%.

2/ Includes $ 137,200,000 noncompetitive tenders accepted at the average price.

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

113

MEMORANDUM FOR THE PRESS July 23, 1974

For your reference, here are remarks of Secretary William Simon before Joint U. S. - Saudi Arabian Working Group on Industrialization Friday.

114

SECRETARY SIMON'S REMARKS TO
OPEN JOINT U. S. - SAUDI ARABIAN
WORKING GROUP ON INDUSTRIALIZATION
July 19, 1974

"Gentlemen, it is my great pleasure to represent the United States at the opening of this initial meeting of the Working Groups of the Joint U. S. - Saudi Arabian Commission on Economic Cooperation. I can assure you that President Nixon is personally interested in our success. I spoke with him at length before I left the United States about Saudi Arabia and the importance of the work we are beginning today. The work of these groups is so important to me that I wanted to be here personally to open them, and I have asked my Assistant Secretary Gerald Parsky to personally oversee these efforts. We are confident that these sessions will lead directly to a successful meeting of the Joint Commission here later this year, which I am looking forward to attending.

As you know, the concept and formation of this Joint Commission is the direct result of his Royal Highness Prince Fahd's successful visit to the United States early last month. Since that time American members and I know our Saudi counterparts of the working groups have been preparing diligently for their participation.

This preparatory work has been motivated by a deep sense of how important our cooperative efforts are, not only for Saudi Arabia and the United States, but for other nations as well. We seek to strengthen the already firm bonds of friendship which unite our two countries. We look forward to a stable and prosperous Middle East in which all nations and peoples will be able to pursue their legitimate interests in peace.

I know that you share our purpose. Our common goal is that of assisting the Kingdom of Saudi Arabia to achieve its objectives in economic development, and particularly in industrialization. To this end the United States Government is prepared to employ the variety of resources at its disposal and to call upon the reservoir of technical experts, business as well as management skills, entrepreneurship, and capital resources which reside in the U. S. private sector. In our short stay, we have already learned a great deal about your objectives. We know that you need statistical information, that you are interested in flared gas utilized in fertilizer and petrochemical projects, that you seek agricultural development and that you would like to explore so called "down-stream" projects in the energy area. We want to explore these and many other areas and then work with you immediately to achieve positive results.

We, in the United States Government, consider this a unique opportunity, one which we approach with full appreciation for its importance and potential.

For many of us, being in your country is a new and rewarding experience, both personally and professionally. For others, it represents the pleasure of returning to a country where warm associations were formed and successful programs were initiated.

The degree of openness and thoroughness of these exploratory discussions will have direct bearing on the success of the Commission. I know the Saudi Arabian Government wants firm, tangible, successful projects, not more studies. You want action, not words. We, too, share this desire.

Our success will be reflected in the degree with which we are able to strengthen the economic relationships, rapport, mutual confidence, and understanding between our countries. Toward these goals our groups will work with yours in a single staff supporting the Joint Commission.

I have full confidence in the results of your work. I look forward with pleasure to returning for the joint formal sessions in October, when we will review the recommendations and plans you will have prepared. Thank you."

CONTACT: Charles Arnold - 964-2041
Joe Laitin - 395-3524 or 395-4854

FOR IMMEDIATE RELEASE July 24, 1974

115

JOINT STATEMENT OF WILLIAM E. SIMON, SECRETARY OF THE TREASURY
AND
ROY L. ASH, DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET
ON BUDGET RESULTS FOR FISCAL YEAR 1974

SUMMARY

The June Monthly Statement of Receipts and Outlays of the United States Government is being released today. It shows the following preliminary budget totals for fiscal year 1974, which ended on June 30:

Receipts of $264.8 billion.--Receipts were $1.2 billion below the May 30 Mid-Session Review, and $5.2 billion below the February 1974 budget estimate.

Outlays of $268.3 billion.--Outlays were $1.2 billion below the Mid-Session estimate, and $6.3 billion below the budget estimate.

A budget deficit of $3.5 billion.--This is the same as the Mid-Session Review estimate and $1.2 billion smaller than the February 1974 budget estimate.

On a full-employment basis, defined as an economy with a 4% unemployment rate, the 1974 budget showed a surplus of almost $10 billion, compared to the budget estimate of $4 billion. The decline in 1974 outlays is largely responsible for the increase in the full-employment surplus. On a full-employment basis, receipts and outlays are now estimated to be $277 billion and $267 billion, respectively.

BUDGET TOTALS, FISCAL YEARS 1973 AND 1974
(in billions of dollars)

	1973 Actual	1974 February 1974 budget estimate	1974 Mid-Session Review estimate	1974 Actual
Budget receipts..............	232.2	270.0	266.0	264.8
Budget outlays...............	246.5	274.7	269.5	268.3
Deficit (-)..................	-14.3	-4.7	-3.5	-3.5
Full-employment receipts.....	243.0	278.0	276.0	277.0
Full-employment outlays......	245.0	274.0	268.0	267.3
Full-employment surplus or deficit (-).................	-2.0	4.0	8.0	9.7

July 1974

116

RECEIPTS

Budget receipts in fiscal year 1974 increased $32.6 billion from 1973 and were $5.2 billion below the February budget estimate. Corporation income tax receipts, which were $4.3 billion below the budget estimate, accounted for most of the decrease. Congressional failure to enact the Administration's proposed windfall profits tax accounts for $1 billion of the drop in corporation income tax receipts.

Employment taxes were $1.8 billion below the budget estimate. Estate and gift taxes, and excise taxes were also lower. Individual income taxes, unemployment taxes, and miscellaneous receipts were higher than estimated in the budget.

OUTLAYS

Total outlays in fiscal year 1974 were $21.8 billion over the prior year, but $6.3 billion short of the February budget estimates. The change in the total was accounted for by several large decreases which were partially offset by a few increases. The principal decreases below the February budget were:

° Outlays by the Department of Health, Education, and Welfare were $3,048 million less than the estimate in the February budget. Most of this shortfall occurred in the areas of health and education. Outlays for Medicare were $858 million below the budget estimate, largely because the number of beneficiaries under the recently established program for the disabled was less than anticipated. Outlays for other health programs were $836 million below the budget estimate and outlays for education were down by $800 million. These shortfalls are due to slower than anticipated grant awards caused in part by late enactment of appropriations. Public assistance outlays for social services and social security retirement and disability benefits were also lower than estimated.

° Outlays by the Department of the Interior were $1,098 below the February estimate. Receipts from offshore oil leasing, which are an offset to outlays, were $748 million higher than estimated in February because of higher bid prices. In addition, States were slow in using grants from the Land and Water Conservation Fund and payments in other areas lagged behind expectations.

° Department of Defense military functions and military assistance outlays were $1,035 million below the budget estimate. The reduction was concentrated in operations and is primarily due to later than anticipated availability of 1974 supplemental appropriations.

° Outlays by the Environmental Protection Agency were $528 million below the February estimate. Outlays for sewage construction grants were lower than estimated because of slowdowns in construction due to equipment and material shortages and delays in moving projects from planning to construction phases.

- Department of Transportation outlays were $330 million below the budget estimate. Spending by the Federal Highway Administration was down because billings from the States were lower than anticipated. Outlays for several other programs were also down slightly.
- Outlays by the United States Postal Service were $301 million below the budget estimate due to congressional delay in enacting proposed legislation concerning Postal Service payments to the Civil Service Retirement and Disability Fund.

The major increases above the budget estimates were:

- Department of Agriculture outlays were $511 million above the budget estimate largely because of a delay in the sale of financial assets of the Farmers Home Administration. (Receipts from asset sales are offset against outlays.) This increase was partially offset by an underrun in outlays for food assistance programs, which resulted from fewer eligible participants entering the program than anticipated, and by other general shortfalls.
- Outlays by the Department of Labor were $380 million above the budget estimate. Benefit payments for unemployment insurance were $487 million higher than estimated in February.

This increase was partially offset by slightly lower than estimated outlays for manpower and other programs and an accelerated reimbursement from the Postal Service for its share of Federal workers compensation payments.

° Net outlays by the <u>Federal Deposit Insurance Corporation</u> were $335 million above the budget estimate largely because expenses incurred in protecting depositors in federally-insured banks were higher than anticipated.

118

BUDGET RECEIPTS AND OUTLAYS
(fiscal years; in millions of dollars)

Description	1973 Actual	1974 February 1974 budget estimate	1974 Actual	1974 Change from February estimate
Receipts by source				
Individual income taxes	103,246	118,000	118,750	+750
Corporation income taxes	36,153	43,000	38,664	-4,336
Social insurance taxes and contributions:				
Employment taxes and contributions	54,876	67,664	65,894	-1,770
Unemployment insurance	6,051	6,198	6,907	+709
Contributions for other insurance and retirement	3,614	4,046	4,049	+3
Excise taxes	16,260	17,144	16,885	-259
Estate and gift taxes	4,917	5,400	5,009	-391
Customs	3,188	3,500	3,334	-166
Miscellaneous	3,921	5,049	5,355	+306
Total receipts	232,225	270,000	264,847	-5,153
Outlays by major agency				
Legislative Branch and the Judiciary	724	871	830	-41
Executive Office of the President	49	112	71	-42
Funds Appropriated to the President:				
Disaster relief	358	450	250	-200
International security assistance:				
Military assistance programs	531	1,100	820	-280
Economic supporting assistance programs	645	117	380	+263
Indochina post war reconstruction assistance	---	493	249	-244
Multilateral assistance	510	669	609	-60
Bilateral assistance	517	891	790	-101
Office of Economic Opportunity	801	611	681	+70
Other	371	272	232	-41
Agriculture:				
Commodity Credit Corporation, foreign assistance and special export programs	4,383	1,844	1,819	-25
Other	5,645	7,467	8,003	+536

Description	1973 Actual	1974 February 1974 budget estimate	1974 Actual	1974 Change from February estimate
Outlays by major agency (continued)				
Commerce	1,368	1,519	1,457	-62
Defense:				
Military	73,297	78,400	77,646	-754
Civil	1,703	1,621	1,682	+61
Health, Education, and Welfare	82,040	96,768	93,720	-3,048
Housing and Urban Development	3,592	4,983	4,739	-245
Interior	-2,253	-3,774	-4,872	-1,098
Justice	1,531	1,938	1,797	-141
Labor	8,639	8,590	8,971	+380
State	591	743	732	-10
Transportation	8,183	8,444	8,114	-330
Treasury:				
Interest on the public debt	24,167	29,100	29,319	+219
General Revenue Sharing	6,636	6,147	6,106	-41
Other	156	602	574	-28
Atomic Energy Commission	2,393	2,328	2,307	-21
Environmental Protection Agency	1,114	2,559	2,030	-528
General Services Administration	468	-306	-264	+42
National Aeronautics and Space Administration	3,311	3,177	3,228	+51
Veterans Administration	11,968	13,241	13,340	+99
Civil Service Commission	4,601	5,946	5,693	-253
Federal Deposit Insurance Corporation	-538	-558	-223	+335
United States Postal Service	1,567	1,999	1,698	-301
Railroad Retirement Board	2,439	2,683	2,668	-15
Small Business Administration	1,317	750	742	-8
Other independent agencies	2,064	2,524	2,344	-179
Allowance for contingencies	---	300	---	-300
Undistributed intragovernmental transactions:				
Federal employer contributions to retirement funds	-2,927	-3,543	-3,319	+224
Interest credited to certain Government accounts	-5,436	-6,420	-6,620	-200
Total outlays	246,526	274,660	268,343	-6,317
Budget surplus (+) or deficit (-)	-14,301	-4,660	-3,495	+1,164

NOTE: Detail will not necessarily add to totals because of rounding.

Preliminary[1] Statement of
Receipts and Outlays of the United States Government

for period from July 1, 1973 through June 30, 1974

TABLE I--TOTALS OF BUDGET RESULTS AND FINANCING (IN MILLIONS)

Fiscal Year	Budget Receipts and Outlays			Means of Financing			
	Receipts	Outlays	Budget Surplus (+) or Deficit (-)	By Borrowing from the Public	By Reduction of Cash and Monetary Assets Increase (-)	By Other Means	Total Budget Financing
Actual 1974 (twelve months)..........	$264,847	$268,343	-$3,495	$3,017	$2,883	-$2,405	$3,495
Comparative data:							
Actual 1973 (full year)	232,225	246,526	-14,301	19,275	-846	-4,128	14,301
Estimated 1974[2]..................	266,000	269,546	-3,546	2,386	3,000	-1,840	3,546
Estimated 1975[2]..................	294,000	305,445	-11,445	14,500	....	-3,055	11,445

TABLE II--SUMMARY OF BUDGET RECEIPTS AND OUTLAYS (In thousands)

Classification	Actual This Fiscal Year to Date	Budget Estimates Full Fiscal Year[2]
RECEIPTS		
Individual income taxes	$118,750,071	$118,000,000
Corporation income taxes	38,664,197	39,700,000
Social insurance taxes and contributions:		
Employment taxes and contributions	65,893,961	66,415,000
Unemployment insurance	6,906,711	6,911,000
Contributions for other insurance and retirement	4,048,681	4,046,000
Excise taxes	16,885,403	17,250,000
Estate and gift taxes	5,009,320	5,100,000
Customs	3,334,127	3,400,000
Miscellaneous	5,355,013	5,178,000
Total	264,847,484	266,000,000
OUTLAYS		
Legislative Branch	625,026	661,854
The Judiciary	205,196	208,549
Executive Office of the President	70,563	92,188
Funds Appropriated to the President:		
International security assistance	1,200,220	1,217,000
International development assistance	1,398,351	1,559,544
Other	1,411,679	1,796,637
Agriculture Department	9,822,781	9,805,000
Commerce Department	1,456,718	1,449,570
Defense Department - Military	77,645,656	77,400,000
Defense Department - Civil	1,682,057	1,711,297
Health, Education, and Welfare Department	93,720,108	93,769,000
Housing and Urban Development Department	4,738,701	4,860,000
Interior Department	-4,872,175	-4,782,000
Justice Department	1,797,228	1,825,000
Labor Department	8,970,912	8,890,445
State Department	732,346	734,759
Transportation Department	8,114,169	8,150,000
Treasury Department:		
Interest on the public debt	29,318,933	29,350,000
General Revenue Sharing	6,105,922	6,147,170
Other	573,929	634,000
Atomic Energy Commission	2,307,212	2,288,000
Environmental Protection Agency	2,030,322	2,359,000
General Services Administration	-264,272	-199,000
National Aeronautics and Space Administration	3,228,140	3,177,300
Veterans Administration	13,340,214	13,464,000
Other Independent agencies	12,921,411	12,939,172
Allowances, undistributed	....	....
Undistributed intragovernmental transactions:		
Federal employer contributions to retirement funds	-3,318,754	-3,543,044
Interest on certain Government accounts	-6,619,644	-6,419,517
Total	268,342,952	269,545,924
Surplus (+) or deficit (-)	-3,495,468	-3,545,924

See footnotes on page 3.

Source: Bureau of Government Financial Operations, Department of the Treasury

TABLE III--BUDGET RECEIPTS AND OUTLAYS (In thousands)

Classification of Receipts	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Gross Receipts	Refunds (Deduct)	Net Receipts	Gross Receipts	Refunds (Deduct)	Net Receipts	Gross Receipts	Refunds (Deduct)	Net Receipts
Individual income taxes:									
Withheld	[3] $10,403,989			$111,857,340			$98,092,726		
Presidential Election Campaign Fund	3,772			26,891			2,427		
Other	[3] 4,083,581			30,818,622			27,016,853		
Total--Individual income taxes	14,491,342	$462,306	$14,029,036	142,702,852	$23,952,782	$118,750,071	125,112,006	$21,866,485	$103,245,521
Corporation income taxes	9,313,478	236,428	9,077,051	41,788,719	3,124,523	38,664,197	39,045,309	2,892,779	36,152,530
Social insurance taxes and contributions:									
Employment taxes and contributions:									
Federal old-age and survivors ins. trust fund:									
Federal Insurance Contributions Act taxes	[3] 3,449,925	...	3,449,925	40,835,583	392,557	40,443,026	35,039,643	373,186	34,666,457
Self-Employment Contributions Act taxes	[3] 227,083	...	227,083	2,345,208	...	2,345,208	1,905,829	...	1,905,829
Deposits by States	[4] -306,828	...	-306,828	4,988,926	...	4,988,926	4,130,891	...	4,130,891
Total--FOASI trust fund	3,370,180	...	3,370,180	48,169,717	392,557	47,777,160	41,076,363	373,186	40,703,177
Federal disability insurance trust fund:									
Federal Insurance Contributions Act taxes	[3] 454,681	...	454,681	5,259,583	50,217	5,209,366	4,628,666	50,626	4,578,040
Self-Employment Contributions Act taxes	[3] 34,130	...	34,130	305,414	...	305,414	252,481	...	252,481
Deposits by States	121,779	...	121,779	632,646	...	632,646	550,447	...	550,447
Total--FDI trust fund	610,590	...	610,590	6,197,642	50,217	6,147,425	5,431,595	50,626	5,380,969
Federal hospital insurance trust fund:									
Federal Insurance Contributions Act taxes	[3] 697,869	...	697,869	9,090,690	92,432	8,998,258	6,659,885	55,044	6,604,841
Self-Employment Contributions Act taxes	[3] 19,460	...	19,460	357,588	...	357,588	212,347	...	212,347
Receipts from railroad retirement account	...	...	...	96,163	...	96,163	61,222	...	61,222
Deposits by States	190,611	...	190,611	1,099,424	...	1,099,424	724,930	...	724,930
Premiums collected for uninsured individuals	[5] 192	...	192	4,281	...	4,281	...	...	...
Total--FHI trust fund	908,132	...	908,132	10,648,146	92,432	10,555,714	7,658,385	55,044	7,603,341
Railroad retirement accounts:									
Railroad Retirement Tax Act taxes	148,560	...	148,560	1,413,996	334	1,413,662	1,189,637	704	1,188,934
Total--Employment taxes and contributions	5,037,462	...	5,037,462	66,429,501	535,540	65,893,961	55,355,980	479,560	54,876,420
Unemployment insurance:									
Unemployment trust fund:									
State taxes deposited in Treasury	61,967	...	61,967	5,254,990	...	5,254,990	4,634,192	...	4,634,192
Federal Unemployment Tax Act taxes	10,695	3,059	7,636	1,559,561	26,202	1,533,359	1,315,997	18,772	1,297,226
Railroad Unemployment Ins. Act contributions	18,604	...	18,604	118,362	...	118,362	120,065	...	120,065
Total--Unemployment trust fund	91,266	3,059	88,207	6,932,914	26,202	6,906,711	6,070,254	18,772	6,051,483
Contributions for other insurance and retirement:									
Federal supplementary medical ins. trust fund:									
Premiums deducted from benefit payments	...	...	...	...	...	...	1,192,934	...	1,192,934
Premiums collected for the aged	132,063	...	132,063	1,577,741	...	1,577,741	84,323	...	84,323
Premiums deposited by States	...	...	...	...	...	...	149,350	...	149,350
Premiums collected for the disabled	[5] 11,788	...	11,788	125,448	...	125,448	...	...	...
Total--FSMI trust fund	143,850	...	143,850	1,703,189	...	1,703,189	1,426,607	...	1,426,607
Federal employees retirement contributions:									
Civil service retirement and disability fund	180,962	...	180,962	2,289,522	...	2,289,522	2,135,019	...	2,135,019
Foreign service retirement and disability fund	855	...	855	9,552	...	9,552	9,003	...	9,003
Other	128	...	128	790	...	790	2,385	...	2,385
Total--Federal employees retirement contributions	181,946	...	181,946	2,299,864	...	2,299,864	2,146,407	...	2,146,407

See footnotes on page 3.

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of RECEIPTS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Gross Receipts	Refunds (Deduct)	Net Receipts	Gross Receipts	Refunds (Deduct)	Net Receipts	Gross Receipts	Refunds (Deduct)	Net Receipts
Social insurance taxes and contributions--Continued									
Contributions for other insurance and retirement--Continued									
Other retirement contributions:									
Civil service retirement and disability fund	$3,572	....	$3,572	$45,628	....	$45,628	$41,033	....	$41,033
Total--Contributions for other insurance and retirement	329,368	....	329,368	4,048,681	....	4,048,681	3,614,046	....	3,614,046
Total--Social insurance taxes and contributions	5,458,095	$3,059	5,455,036	77,411,096	$561,742	76,849,354	65,040,280	$498,331	64,541,949
Excise taxes:									
Miscellaneous excise taxes	918,421	10,307	908,114	9,925,672	140,688	9,784,984	9,994,571	158,322	9,836,249
Airport and airway trust fund	74,570	75	74,495	842,273	2,163	840,110	759,790	1,632	758,159
Highway trust fund	495,700	14,000	481,700	6,383,707	123,399	6,260,309	5,817,956	152,502	5,665,454
Total--Excise taxes	1,488,691	24,382	1,464,309	17,151,652	266,250	16,885,403	16,572,318	312,457	16,259,861
Estate and gift taxes	349,254	5,025	344,229	5,075,353	66,033	5,009,320	4,975,862	58,793	4,917,069
Customs duties	310,589	9,565	301,024	3,444,059	109,932	3,334,127	3,307,821	119,841	3,187,980
Miscellaneous receipts:									
Deposits of earnings by Federal Reserve Banks	468,472	....	468,472	4,845,423	....	4,845,423	3,495,069	....	3,495,069
All other	34,997	-3	35,000	509,868	278	509,590	425,997	505	425,492
Total--Miscellaneous receipts	503,469	-3	503,472	5,355,291	278	5,355,013	3,921,066	505	3,920,561
Total--Budget receipts	31,914,918	740,760	31,174,158	292,929,023	28,081,540	264,847,484	257,974,663	25,749,191	232,225,472

FOOTNOTES

Note: Throughout this statement, details may not add to totals because of rounding.

[1]This statement is preliminary and is based on reports from disbursing, collecting and administrative agencies of the Government. Final reports of Government disbursing, collecting and administrative agencies, including certain overseas transactions, will be incorporated in the final statement for fiscal year 1974 to be published at a later date. It was not possible to include these transactions in the preliminary statement because of timing.

[2]Based on revised estimates of the 1974 Budget released June 12, 1974 before the Senate Finance Committee on the public debt limit.

[3]In accordance with the provisions of the Social Security Act, as amended "Individual income taxes withheld" have been increased and "Federal Insurance Contributions Act taxes" have been decreased in the amount of $538,525,132 to correct estimates for quarter ended September 30, 1973 and prior. "Individual income taxes other" have been decreased and "Self Employment Contributions Act Taxes" have been increased in the amount of $69,673,000 to correct estimates for the calendar year 1972 and prior.

[4]Includes $312,390,534.40 distribution to Federal Disability and Hospital Insurance Trust Funds.

[5]Effective July 1, 1973, collections are now being made pursuant to Public Law 92-603, Section 202, Title II.

[6]Pursuant to Public Law 93-32 dated May 11, 1973, most outlays of the Rural Electrification Administration including the Rural Telephone Bank were classified outside the unified budget totals. Transactions are included in budget outlays through the close of business May 11, 1973. For transactions after May 11, 1973, classified outside the unified budget totals see Table IV, Schedule A. Administrative expenses financed by general fund appropriations will continue to be reflected in budget totals.

[7]Includes adjustment to amount previously reported.

[8]Pursuant to Treasury Department Order No. 229-1, as of March 17, 1974, all remaining current activity for the Office of the Treasurer was transferred to Bureau of Government Financial Operations.

[9]In accordance with the Postal Reorganization Act dated August 12, 1970, starting with 1974 operations, the Postal Service will be excluded from the U.S. budget. For transactions after July 1, 1973, classified outside the unified budget totals, see Table IV, Schedule A. Payments to the postal service fund financed by general fund appropriations will continue to be reflected in budget totals.

[10]Includes opening balance adjustment of $323,373,828.26 to convert interest receivable of certain government accounts on public debt issues from a cash to an accrual basis in order to be consistent with accrual reporting of public debt interest payable.

[11]Transactions cover the period July 1, 1973, through June 21, 1974 and are partially estimated.

[12]Includes the following increases in gold assets of the United States authorized by Section 2 of the Par Value Modification Act, as amended by Public Law 93-110.

Gold held by the U.S. Treasury	$1,156,691,036.56
Gold held by the Exchange Stabilization Fund	8,527,705.56
U.S. Gold Tranche with IMF	53,883,804.62

*Less than $500.00

**Less than $500,000.00

[13]Includes only amounts loaned to Federal Agencies in lieu of Agency Debt Issuance.

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Legislative Branch:									
Senate	$8,177	....	$8,177	$93,066	....	$93,066	$78,869	....	$78,869
House of Representatives	13,827	....	13,827	158,093	....	158,093	141,646	....	141,646
Joint items for Senate and House	379	....	379	37,178	....	37,178	29,698	....	29,698
Office of Technology Assessment	113	....	113	307	....	307	....	....	....
Architect of the Capitol	4,175	....	4,175	48,139	....	48,139	32,540	....	32,540
Botanic Garden	72	....	72	858	....	858	804	....	804
Library of Congress	8,070	....	8,070	85,630	....	85,630	77,735	....	77,735
Government Printing Office:									
General fund appropriations	8,762	....	8,762	102,015	....	102,015	86,570	....	86,570
Revolving fund (net)	-14,756	....	-14,756	-6,396	....	-6,396	3,146	....	3,146
General Accounting Office	10,825	....	10,825	106,849	....	106,849	95,265	....	95,265
Cost Accounting Standards Board	86	....	86	1,341	....	1,341	1,480	....	1,480
United States Tax Court	684	....	684	13,479	....	13,479	8,107	....	8,107
Proprietary receipts from the public	....	$3,015	-3,015	....	$15,171	-15,171	....	$14,945	-14,945
Intrabudgetary transactions	-30	....	-30	-362	....	-362	-457	....	-457
Total--Legislative Branch	40,383	3,015	37,368	640,197	15,171	625,026	555,404	14,945	540,459
The Judiciary:									
Supreme Court of the United States	527	....	527	5,793	....	5,793	5,209	....	5,209
Court of Customs and Patent Appeals	151	....	151	706	....	706	663	....	663
Customs Court	460	....	460	2,349	....	2,349	2,209	....	2,209
Court of Claims	420	....	420	2,204	....	2,204	2,102	....	2,102
Courts of appeals, district courts, and other judicial services	38,191	....	38,191	192,898	....	192,898	175,346	....	175,346
Federal Judicial Center	401	....	401	1,863	....	1,863	1,424	....	1,424
Commission on Bankruptcy Laws of the United States	12	....	12	109	....	109	441	....	441
Judiciary Trust Funds	636	....	636	3,106	....	3,106	2,820	....	2,820
Proprietary receipts from the public	....	467	-467	....	3,834	-3,834	....	6,913	-6,913
Total--The Judiciary	40,800	467	40,332	209,029	3,834	205,196	190,213	6,913	183,299
Executive Office of the President:									
Compensation of the President	21	....	21	250	....	250	250	....	250
The White House Office	968	....	968	10,384	....	10,384	9,735	....	9,735
Special Projects	(*)	....	(*)	645	....	645	1,650	....	1,650
Executive Residence	521	....	521	1,788	....	1,788	1,057	....	1,057
Special Assistance to the President	77	....	77	609	....	609	628	....	628
Council of Economic Advisers	128	....	128	1,425	....	1,425	1,498	....	1,498
Council on Environmental Quality and Office of Environmental Quality	298	....	298	2,358	....	2,358	2,310	....	2,310
Council on International Economic Policy	255	....	255	1,480	....	1,480	658	....	658
Domestic Council	64	....	64	957	....	957	1,627	....	1,627
Federal Energy Office	1,093	....	1,093	5,160	....	5,160	....	....	....
National Aeronautics and Space Council	3	....	3	47	....	47	414	....	414
National Security Council	261	....	261	2,532	....	2,532	2,437	....	2,437
Office of Management and Budget	1,314	....	1,314	18,271	....	18,271	18,544	....	18,544
Office of Telecommunications Policy	261	....	261	2,378	....	2,378	2,574	....	2,574
Special Action Office for Drug Abuse Prevention	593	....	593	20,811	....	20,811	4,923	....	4,923
Special Representative for Trade Negotiations	179	....	179	1,467	....	1,467	852	....	852
Miscellaneous	....	....	....	....	....	....	8	....	8
Total--Executive Office of the President	6,036	....	6,036	70,563	....	70,563	49,164	....	49,164

See footnotes on page 3.

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Funds appropriated to the President:									
Appalachian regional development programs:									
Public enterprise funds	$18	....	$18	$801	$238	$564	$648	$144	$505
Other	29,195	....	29,195	287,721	....	287,721	264,425	....	264,425
Disaster relief	7,315	....	7,315	250,085	....	250,085	358,252	....	358,252
Economic stabilization activities	4,478	....	4,478	73,690	....	73,690	26,405	....	26,405
Emergency fund for the President	35	....	35	435	....	435	14	....	14
Expansion of defense production	212	$16,156	-15,944	3,352	159,224	-155,871	103,883	35,849	68,034
Expenses of management improvement	....	....	....	15	....	15	548	....	548
Foreign assistance:									
International security assistance:									
Military assistance:									
Defense Department	73,406	....	73,406	532,917	....	532,917	492,959	....	492,959
All other agencies	-391	....	-391	-73,246	....	-73,246	-8,287	....	-8,287
Foreign military credit sales	41,976	....	41,976	406,004	....	406,004	232,953	....	232,953
Military credit sales to Israel	786	....	786	4,807	....	4,807	123,354	....	123,354
Emergency security assistance for Israel	622,942	....	622,942	640,278	....	640,278	....	....	....
Security supporting assistance	32,788	....	32,788	380,428	....	380,428	645,251	....	645,251
Liquidation of foreign military sales fund	-7,006	....	-7,006	-64,085	25,842	-89,927	239,937	126,674	113,263
Advances, foreign military sales	852,939	....	852,939	2,675,418	....	2,675,418	1,396,124	....	1,396,124
Proprietary receipts from the public:									
Advances, foreign military sales	....	805,057	-805,057	....	3,167,364	-3,167,364	....	1,729,513	-1,729,513
Other	....	1,925	-1,925	....	109,095	-109,095	....	89,708	-89,708
Total--International security assistance	1,617,441	806,982	810,459	4,502,520	3,302,301	1,200,220	3,122,291	1,945,895	1,176,396
Indochina post war reconstruction assistance	42,510	....	42,510	248,972	....	248,972	....	....	....
International development assistance:									
Multilateral assistance:									
International financial institutions	80,202	....	80,202	446,312	....	446,312	323,532	....	323,532
International organizations and programs	25,739	....	25,739	162,310	....	162,310	186,227	....	186,227
Bilateral assistance:									
Functional development assistance program	19,767	....	19,767	147,358	....	147,358	....	....	....
Grants and other programs	45,387	....	45,387	367,816	....	367,816	456,042	....	456,042
Alliance for progress, development loans	17,277	-300	17,577	247,939	25,528	222,411	230,415	42,252	188,164
Development loans	31,647	44,962	-13,315	311,446	212,711	98,735	371,204	178,142	193,062
Housing guaranty fund	533	169	364	3,583	3,074	510	3,077	2,586	490
Overseas Private Investment Corporation	-1,947	7,399	-9,346	19,357	39,963	-20,605	27,740	37,801	-10,060
Inter-American Foundation	437	....	437	6,300	10	6,289	3,949	-33	3,982
Intragovernmental funds	1,816	....	1,816	-3,977	....	-3,977	-1,045	....	-1,045
Technical assistance trust fund	704	459	245	2,964	4,903	-1,939	6,457	7,469	-1,013
Proprietary receipts from the public	....	1,267	-1,267	....	26,868	-26,868	....	312,294	-312,294
Total--Bilateral assistance	115,622	53,956	61,666	1,102,786	313,056	789,730	1,097,840	580,510	517,329
Total--International development assistance	221,562	53,956	167,606	1,711,408	313,056	1,398,351	1,607,599	580,510	1,027,088
President's foreign assistance contingency fund	2,681	....	2,681	25,246	....	25,246	10,535	....	10,535
Total--Foreign assistance	1,884,195	860,938	1,023,257	6,488,145	3,615,357	2,872,788	4,740,425	2,526,405	2,214,019
Office of Economic Opportunity	34,174	27	34,147	681,160	338	680,823	800,832	153	800,679
Miscellaneous	....	....	....	....	....	....	40	....	40
Total--Funds appropriated to the President	1,959,621	877,121	1,082,500	7,785,406	3,775,156	4,010,250	6,295,471	2,562,551	3,732,920

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Agriculture Department:									
Departmental management	$4,035	....	$4,035	$43,611	....	$43,611	$37,032	....	$37,032
Science and education programs:									
Agricultural Research Service	16,608	....	16,608	210,006	....	210,006	199,126	....	199,126
Animal and Plant Health Inspection Service	25,625	....	25,625	315,497	....	315,497	309,417	....	309,417
Cooperative State Research Service	9,257	....	9,257	85,113	....	85,113	82,344	....	82,344
Extension Service	20,344	....	20,344	193,384	....	193,384	185,849	....	185,849
National Agricultural Library	490	....	490	4,476	....	4,476	4,207	....	4,207
Total--Science and education programs	72,323	....	72,323	808,477	....	808,477	780,943	....	780,943
Agricultural economics:									
Statistical Reporting Service	2,305	....	2,305	23,363	....	23,363	21,334	....	21,334
Economic Research Service	611	....	611	18,677	....	18,677	15,443	....	15,443
Marketing services	742	....	742	8,916	....	8,916	8,418	....	8,418
International programs:									
Foreign Agricultural Service	5,009	....	5,009	28,317	....	28,317	26,921	....	26,921
Foreign assistance and special export programs	66,109	....	66,109	569,407	....	569,407	895,000	....	895,000
Agricultural Stabilization and Conservation Service:									
Salaries and expenses	17,416	....	17,416	135,210	....	135,210	163,621	....	163,621
Sugar act program	5,226	....	5,226	81,784	....	81,784	87,127	....	87,127
Agricultural conservation program (REAP)	-11,863	....	-11,863	-16,840	....	-16,840	162,598	....	162,598
Cropland adjustment program	-22	....	-22	47,146	....	47,146	51,456	....	51,456
Indemnity, conservation and land-use programs	1,663	....	1,663	22,698	....	22,698	16,690	....	16,690
Total--Agricultural Stab. and Conservation Service	12,420	....	12,420	269,997	....	269,997	481,492	....	481,492
Corporations:									
Federal Crop Insurance Corporation:									
Administrative and operating expenses	307	....	307	12,192	....	12,192	11,723	....	11,723
Federal Crop Insurance Corporation fund	1,755	$509	1,246	29,773	$44,041	-14,268	25,370	$37,951	-12,582
Commodity Credit Corporation:									
Price support and related programs	-22,546	223,777	-246,323	5,506,334	4,318,172	1,188,162	9,610,964	6,055,675	3,555,289
Special activities:									
National Wool Act program	719	....	719	7,258	....	7,258	74,000	....	74,000
Intragovernmental funds	15,754	....	15,754	54,561	29	54,532	-105,934	35,026	-140,960
Total--Commodity Credit Corporation	-6,072	223,777	-229,849	5,568,154	4,318,201	1,249,952	9,579,030	6,090,701	3,488,329
Total--Corporations	-4,010	224,286	-228,296	5,610,118	4,362,242	1,247,876	9,616,122	6,128,652	3,487,470
Rural development:									
Rural Development Service	57	....	57	1,900	....	1,900	193	....	193
Rural Electrification Administration:[6]									
Rural Telephone Bank	....	....	....	....	....	....	34,388	5,085	29,303
Other	1,943	....	1,943	17,393	....	17,393	499,216	....	499,216

See footnotes on page 3

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Agriculture Department--Continued									
Rural development--Continued									
Farmers Home Administration:									
Public enterprise funds:									
Rural housing insurance fund	$247,757	$143,935	$103,822	$2,946,353	$1,654,788	$1,291,564	$2,284,225	$2,516,026	-$231,801
Agricultural credit insurance fund	122,192	54,560	67,632	1,715,620	1,617,285	98,335	1,781,602	1,587,507	194,095
Rural development insurance fund	43,948	5,976	37,972	457,962	308,504	149,459	232,830	455,593	-222,762
Other	2,617	473	2,145	2,859	7,555	-4,696	69,450	107,723	-38,273
Rural water and waste disposal grants	2,119	....	2,119	34,002	....	34,002	42,030	....	42,030
Salaries and expenses	9,300	....	9,300	118,051	....	118,051	104,068	....	104,068
Other	696	....	696	6,185	....	6,185	5,584	....	5,584
Total--Farmers Home Administration	428,630	204,944	223,685	5,281,032	3,588,132	1,692,899	4,519,789	4,666,848	-147,059
Total--Rural development	430,629	204,944	225,685	5,300,325	3,588,132	1,712,192	5,053,585	4,671,933	381,653
Environmental programs:									
Soil Conservation Service:									
Conservation operations	14,159	....	14,159	184,935	....	184,935	169,477	....	169,477
Watershed and flood prevention operations	12,250	....	12,250	139,805	....	139,805	112,594	....	112,594
Other	2,363	....	2,363	28,435	....	28,435	25,927	....	25,927
Consumer programs:									
Agricultural Marketing Service:									
Marketing Services	-3,449	....	-3,449	28,027	....	28,027	30,301	....	30,301
Funds for strengthening markets, income and supply	107,932	....	107,932	789,572	....	789,572	740,222	....	740,222
Milk market orders assessment fund	1,753	1,657	96	19,885	18,758	1,128	19,175	19,534	-359
Other	3,837	....	3,837	49,144	....	49,144	33,900	....	33,900
Total--Agricultural Marketing Service	110,074	1,657	108,417	886,628	18,758	867,870	823,598	19,534	804,064
Food and Nutrition Service:									
Child nutrition programs	65,159	....	65,159	752,681	....	752,681	602,402	....	602,402
Special milk program	7,120	....	7,120	50,279	....	50,279	90,858	....	90,858
Food stamp program	273,403	....	273,403	2,845,698	....	2,845,698	2,207,532	....	2,207,532
Total--Food and Nutrition Service	345,682	....	345,682	3,648,657	....	3,648,657	2,900,792	....	2,900,792
Total--Consumer Programs	455,755	1,657	454,098	4,535,285	18,758	4,516,527	3,724,389	19,534	3,704,856
Forest Service:									
Intragovernmental funds	-1,639	....	-1,639	-682	....	-682	-6,688	....	-6,688
Forest protection and utilization	35,796	....	35,796	397,780	....	397,780	374,818	....	374,818
Construction and land acquisition	2,486	....	2,486	33,766	....	33,766	28,087	....	28,087
Forest roads and trails	10,744	....	10,744	110,322	....	110,322	140,618	....	140,618
Forest Service permanent appropriations	1,625	....	1,625	181,336	....	181,336	137,107	....	137,107
Cooperative work	6,269	....	6,269	100,709	....	100,709	44,321	....	44,321
Other	1,490	....	1,490	9,340	....	9,340	4,946	....	4,946
Total--Forest Service	56,771	....	56,771	832,571	....	832,571	723,210	....	723,210
Proprietary receipts from the public	....	160,754	-160,754	....	610,326	-610,326	....	843,367	-843,367
Total--Agriculture Department	1,131,473	591,641	539,832	18,402,239	8,579,458	9,822,781	21,691,889	11,663,486	10,028,403

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Commerce Department:									
General Administration	$868	...	$868	$9,950	...	$9,950	$9,251	...	$9,251
Social and Economic Statistics Administration	6,201	...	6,201	59,468	...	59,468	58,603	...	58,603
Economic Development Assistance:									
Economic Development Administration:									
Public works grants and loans revolving fund	23	$3,554	-3,531	19,571	$40,605	-21,034	17,371	$35,967	-18,596
Economic development assistance programs	1,563	...	1,563	18,418	...	18,418	...	...	...
Other	18,596	...	18,596	238,156	...	238,156	296,319	...	296,319
Regional Action Planning Commissions	3,293	...	3,293	57,746	...	57,746	58,034	...	58,034
Promotion of Industry and Commerce:									
Domestic and International Business Administration	6,829	...	6,829	68,110	...	68,110	55,590	...	55,590
Foreign Direct Investment Regulation	164	...	164	2,348	...	2,348	2,457	...	2,457
Minority Business Enterprise	3,952	...	3,952	46,851	...	46,851	39,142	...	39,142
National Industrial Pollution Control Council	3	...	3	21	...	21	332	...	332
U.S. Travel Service	1,806	...	1,806	10,955	...	10,955	7,586	...	7,586
Total--Promotion of Industry and Commerce	12,753	...	12,753	128,284	...	128,284	105,106	...	105,106
Science and Technology:									
National Oceanic and Atmospheric Administration:									
Public enterprise funds	-5	165	-170	372	4,528	-4,155	5,377	2,973	2,404
Other	41,407	...	41,407	412,111	...	412,111	337,341	...	337,341
Science and Technical Research	15,924	...	15,924	132,146	...	132,146	121,741	...	121,741
Office of State Technical Service	...	...	...	(*)	...	(*)	7	...	7
Total--Science and Technology	57,326	165	57,161	544,630	4,528	540,102	464,466	2,973	461,493
Maritime Administration:									
Public enterprise funds	535	1,242	-707	3,341	18,116	-14,775	1,948	12,787	-10,839
Ship constructions	34,668	...	34,668	199,748	...	199,748	185,878	...	185,878
Operating-differential subsides	29,070	...	29,070	257,919	...	257,919	226,711	...	226,711
Other	5,942	...	5,942	67,237	...	67,237	60,404	...	60,404
Total--Maritime Administration	70,216	1,242	68,974	528,246	18,116	510,130	474,941	12,787	462,154
Proprietary receipts from the public	...	12,060	-12,060	...	62,115	-62,115	...	41,994	-41,994
Intrabudgetary transactions	-158	...	-158	-22,386	...	-22,386	-22,012	...	-22,012
Total--Commerce Department	170,680	17,021	153,659	1,582,082	125,364	1,456,718	1,462,079	93,720	1,368,359
Defense Department--Military:									
Military personnel:									
Department of the Army	853,687	...	853,687	8,771,007	...	8,771,007	8,534,842	...	8,534,842
Department of the Navy	637,692	...	637,692	7,308,353	...	7,308,353	7,194,040	...	7,194,040
Department of the Air Force	621,412	...	621,412	7,658,173	...	7,658,173	7,516,860	...	7,516,860
Total--Military personnel	2,112,791	...	2,112,791	23,737,533	...	23,737,533	23,245,741	...	23,245,741
Retired Military personnel	451,382	...	451,382	5,128,078	...	5,128,078	4,390,097	...	4,390,097

See footnotes on page 3.

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Defense Department--Military--Continued									
Operation and maintenance:									
Department of the Army	$683,390	....	$683,390	$6,983,762	....	$6,983,762	$6,938,837	....	$6,938,837
Department of the Navy	749,727	....	749,727	6,540,496	....	6,540,496	5,686,522	....	5,686,522
Department of the Air Force	690,357	....	690,357	7,327,552	....	7,327,552	6,999,017	....	6,999,017
Defense agencies	121,164	....	121,164	1,590,387	....	1,590,387	1,444,232	....	1,444,232
Total--Operation and maintenance	2,244,638	....	2,244,638	22,442,197	....	22,442,197	21,068,608	....	21,068,608
Procurement:									
Department of the Army	268,834	....	268,834	2,786,094	....	2,786,094	2,780,687	....	2,780,687
Department of the Navy	578,879	....	578,879	7,024,587	....	7,024,587	7,027,848	....	7,027,848
Department of the Air Force	501,184	....	501,184	5,365,504	....	5,365,504	5,797,655	....	5,797,655
Defense agencies	8,059	....	8,059	64,197	....	64,197	48,141	....	48,141
Total--Procurement	1,356,956	....	1,356,956	15,240,383	....	15,240,383	15,654,330	....	15,654,330
Research, development, test and evaluation:									
Department of the Army	207,164	....	207,164	2,185,308	....	2,185,308	1,912,094	....	1,912,094
Department of the Navy	304,200	....	304,200	2,621,739	....	2,621,739	2,404,199	....	2,404,199
Department of the Air Force	262,958	....	262,958	3,239,555	....	3,239,555	3,361,887	....	3,361,887
Defense agencies	47,384	....	47,384	528,494	....	528,494	478,595	....	478,595
Total--Research, development, test and evaluation	821,706	....	821,706	8,575,096	....	8,575,096	8,156,775	....	8,156,775
Military construction:									
Department of the Army	45,808	....	45,808	690,259	....	690,259	421,456	....	421,456
Department of the Navy	38,844	....	38,844	412,514	....	412,514	394,981	....	394,981
Department of the Air Force	21,529	....	21,529	284,763	....	284,763	284,682	....	284,682
Defense agencies	1,475	....	1,475	13,390	....	13,390	18,150	....	18,150
Total--Military construction	107,656	....	107,656	1,400,926	....	1,400,926	1,119,269	....	1,119,269
Family housing:									
Homeowner's assistance fund	848	$189	659	7,518	$2,417	5,100	4,154	$4,121	33
Other	88,113	....	88,113	883,898	....	883,898	728,937	....	728,937
Total--Family housing	88,961	189	88,772	891,415	2,417	888,998	733,091	4,121	728,971
Civil Defense Preparedness Agency	6,733	....	6,733	75,321	....	75,321	74,064	....	74,064
Special foreign currency program	624	....	624	3,600	....	3,600	4,374	....	4,374
Revolving and management funds:									
Public enterprise funds:									
Department of the Army	(*)	....	(*)	1	19	-18	(*)	....	(*)
Department of the Navy	4,464	2,507	1,957	37,204	61,657	-24,453	20,097	21,424	-1,328
Department of the Air Force	....	....	....	....	15	-15	....	25	-25
Intragovernmental funds:									
Department of the Army	-7,802	....	-7,802	92,121	....	92,121	-347,165	....	-347,165
Department of the Navy	-59,149	....	-59,149	113,619	....	113,619	-200,976	....	-200,976
Department of the Air Force	29,833	....	29,833	73,551	....	73,551	-315,551	....	-315,551
Defense agencies	-51,788	....	-51,788	64,677	....	64,677	-165,037	....	-165,037
Total--Revolving and management funds	-84,442	2,507	-86,949	381,173	61,691	319,482	-1,008,631	21,449	-1,030,080

See footnotes on page 3.

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Defense Department--Military--Continued									
Miscellaneous trust revolving funds	$1,430	$7,971	-$6,541	$64,827	$82,442	-$17,615	$64,231	$73,335	-$9,104
Miscellaneous trust funds	833	...	833	6,719	...	6,719	7,449	...	7,449
Proprietary receipts from the public	...	-18,686	18,686	...	152,375	-152,375	...	105,424	-105,424
Intrabudgetary transactions	-2,004	...	-2,004	-2,688	...	-2,688	-7,973	...	-7,973
Total--Defense Department Military	7,107,266	-8,019	7,115,284	77,944,581	298,925	77,645,656	73,501,427	204,329	73,297,098
Defense Department--Civil:									
Cemeterial expenses, Army	880	...	880	11,097	...	11,097	20,170	...	20,170
Corps of Engineers:									
Intragovernmental funds	-9,218	...	-9,218	10,097	...	10,097	2,668	...	2,668
Other	248,496	...	248,496	1,676,284	...	1,676,284	1,706,513	...	1,706,513
Proprietary receipts from the public	...	2,511	-2,511	...	31,624	-31,624	-9	37,718	-37,727
Ryukyu Islands, Army	5	67	-62	-91	351	-442	430	506	-76
Wildlife conservation, etc., military reservations	87	...	87	598	...	598	512	...	512
Soldiers' and Airmen's Home:									
Soldiers' and Airmen's Home revolving fund	17	22	-4	239	254	-15	225	222	4
Other	1,299	...	1,299	14,256	...	14,256	12,163	...	12,163
The Panama Canal:									
Panama Canal Company	26,278	19,568	6,710	213,771	213,910	-140	196,272	198,657	-2,385
Other	9,014	...	9,014	62,562	...	62,562	58,392	...	58,392
Proprietary receipts from the public	...	2,084	-2,084	...	36,727	-36,727	...	36,214	-36,214
Intrabudgetary transactions	-6,707	...	-6,707	-23,890	...	-23,890	-20,908	...	-20,908
Total--Defense Department Civil	270,152	24,251	245,901	1,964,923	282,866	1,682,057	1,976,429	273,317	1,703,112
Health, Education, and Welfare Department:									
Food and Drug Administration:									
Revolving fund for certification and other services	491	539	-48	4,894	5,411	-518	4,251	4,750	-499
Other	17,052	...	17,052	164,699	...	164,699	143,307	...	143,307
Health Services Administration:									
Health services	41,570	...	41,570	686,055	...	686,055	673,460	...	673,460
Indian health	21,136	...	21,136	213,984	...	213,984	197,574	...	197,574
Other	1,064	...	1,064	9,660	...	9,660	5,816	...	5,816
Center for Disease Control	10,931	...	10,931	133,387	...	133,387	136,229	...	136,229
National Institutes of Health:									
Intragovernmental funds	102,508	...	102,508	17,126	...	17,126	32,980	...	32,980
Cancer research	36,974	...	36,974	422,773	...	422,773	384,310	...	384,310
Heart and lung research	25,243	...	25,243	268,824	...	268,824	232,921	...	232,921
Arthritis, metabolic and digestive diseases	13,191	...	13,191	148,853	...	148,853	149,528	...	149,528
Neurological diseases and stroke	10,246	...	10,246	117,823	...	117,823	110,755	...	110,755
Allergy and infectious diseases	8,006	...	8,006	104,479	...	104,479	106,394	...	106,394
General medical science	10,331	...	10,331	160,804	...	160,804	170,841	...	170,841
Child health and human development	10,007	...	10,007	117,595	...	117,595	114,718	...	114,718
Other research institutes	15,242	...	15,242	194,948	...	194,948	172,966	...	172,966
Other	4,326	...	4,326	45,803	...	45,803	40,577	...	40,577
Total--National Institutes of Health	236,075	...	236,075	1,599,028	...	1,599,028	1,515,991	...	1,515,991

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Health, Education, and Welfare Department--Continued									
Alcohol, Drug Abuse, and Mental Health Administration:									
Public enterprise funds	...	...	...	$37	$33	$4	$88	$77	$11
Intragovernmental funds	-$4	...	-$4	-8	...	-8	-27	...	-27
Alcohol, drug abuse and mental health	38,908	...	38,908	588,301	...	588,301	566,984	...	566,984
Saint Elizabeths Hospital	5,467	...	5,467	40,346	...	40,346	37,388	...	37,388
Total--Alcohol, Drug Abuse, and Mental Health Administration	44,371	...	44,371	628,676	33	628,643	604,434	77	604,357
Health Resources Administration:									
Public enterprise funds	3,142	$429	2,712	32,030	7,566	24,464	6,325	391	5,934
Health resources	48,860	...	48,860	926,243	...	926,243	1,006,812	...	1,006,812
Office of Assistant Secretary for Health	15,939	...	15,939	57,111	...	57,111	51,701	...	51,701
Education Division:									
Office of Education:									
Student loan insurance fund	8,439	1,131	7,307	94,229	10,073	84,155	50,760	7,481	43,279
Higher education facilities loan and insurance fund	24,176	858	23,319	40,304	27,735	12,568	32,165	23,032	9,133
Elementary and secondary education	236,986	...	236,986	1,667,932	...	1,667,932	1,820,122	...	1,820,122
School assistance in federally affected areas	25,090	...	25,090	558,515	...	558,515	580,493	...	580,493
Emergency school aid	32,679	...	32,679	202,838	...	202,838	40,956	...	40,956
Education for the handicapped	19,324	...	19,324	122,601	...	122,601	105,709	...	105,709
Occupational, vocational, and adult education	93,733	...	93,733	567,607	...	567,607	606,930	...	606,930
Higher education	186,170	...	186,170	1,176,455	...	1,176,455	1,375,691	...	1,375,691
Library resources	26,102	...	26,102	149,711	...	149,711	92,904	...	92,904
Educational development	24,219	...	24,219	246,117	...	246,117	238,644	...	238,644
Other	10,431	...	10,431	96,627	...	96,627	76,391	...	76,391
Total--Office of Education	687,349	1,989	685,360	4,922,935	37,809	4,885,126	5,020,766	30,513	4,990,253
National Institute of Education	22,175	...	22,175	96,615	...	96,615	35,830	...	35,830
Office of Assistant Secretary for Education	165	...	165	1,481	...	1,481	966	...	966
Total--Education Division	709,689	1,989	707,700	5,021,031	37,809	4,983,222	5,057,562	30,513	5,027,048
Social and Rehabilitation Service:									
Grants to States for public assistance:									
Financing or providing medical services	528,764	...	528,764	5,818,391	...	5,818,391	4,591,416	...	4,591,416
Public assistance	357,362	...	357,362	5,423,312	...	5,423,312	5,929,452	...	5,929,452
Social services	120,565	...	120,565	1,471,827	...	1,471,827	1,614,269	...	1,614,269
Work incentives	44,157	...	44,157	339,210	...	339,210	281,055	...	281,055
Rehabilitation services	118,345	...	118,345	959,267	...	959,267	797,105	...	797,105
Assistance to refugees in the United States	4,741	...	4,741	107,767	...	107,767	135,363	...	135,363
Other	5,887	...	5,887	66,399	...	66,399	54,340	...	54,340
Total--Social and Rehabilitation Service	1,179,822	...	1,179,822	14,186,174	...	14,186,174	13,403,000	...	13,403,000
Social Security Administration:									
Intragovernmental funds	101	...	101	-979	...	-979	-128	...	-128
Payment to social security trust funds:									
Financing or providing medical services	174,642	...	174,642	2,527,706	...	2,527,706	1,859,866	...	1,859,866
Retirement and disability	...	...	...	493,788	...	493,788	525,645	...	525,645
Special benefits for disabled coal miners	79,060	...	79,060	994,687	...	994,687	951,693	...	951,693
Supplemental security income program	373,813	...	373,813	2,256,409	...	2,256,409	41,000	...	41,000
Federal old-age and survivors ins. trust fund:									
Administrative expenses and construction	99,074	...	99,074	729,723	...	729,723	667,359	...	667,359
Benefit payments	4,295,220	...	4,295,220	47,854,443	...	47,854,443	42,170,274	...	42,170,274
Vocational rehabilitation services	478	...	478	3,837	...	3,837	2,470	...	2,470
Payment to railroad retirement account	...	...	...	908,585	...	908,585	782,954	...	782,954
Total--FOASI trust fund	4,394,772	...	4,394,772	49,496,588	...	49,496,588	43,623,057	...	43,623,057

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Health, Education and Welfare Department--Continued									
Social Security Administration--Continued									
Federal disability insurance trust fund:									
Administrative expenses and construction	$19,575	...	$19,575	$154,201	...	$154,201	$246,653	...	$246,653
Benefit payments	570,895	...	570,895	6,157,190	...	6,157,190	5,161,871	...	5,161,871
Vocational rehabilitation services	6,769	...	6,769	49,156	...	49,156	39,361	...	39,361
Payment of railroad retirement account	...	...	...	22,327	...	22,327	19,503	...	19,503
Total--FDI trust fund	597,239	...	597,239	6,382,875	...	6,382,875	5,467,388	...	5,467,388
Federal hospital insurance trust fund:									
Administrative expenses and construction	25,347	...	25,347	257,952	...	257,952	192,842	...	192,842
Benefit payments	742,659	...	742,659	7,785,596	...	7,785,596	6,648,819	...	6,648,819
Total--FHI trust fund	768,006	...	768,006	8,043,548	...	8,043,548	6,841,661	...	6,841,661
Federal supplementary medical ins. trust fund:									
Administrative expenses and construction	36,763	...	36,763	409,032	...	409,032	245,867	...	245,867
Benefit payments	270,761	...	270,761	2,869,132	...	2,869,132	2,391,232	...	2,391,232
Total--FSMI trust fund	307,523	...	307,523	3,278,164	...	3,278,164	2,637,099	...	2,637,099
Total--Social Security Administration	6,695,157	...	6,695,157	73,472,785	...	73,472,785	61,947,281	...	61,947,281
Special institutions:									
American Printing House for the Blind	155	...	155	1,817	...	1,817	1,697	...	1,697
National Technical Institute for the Deaf	1,519	...	1,519	12,168	...	12,168	17,060	...	17,060
Gallaudet College	2,179	...	2,179	19,286	...	19,286	13,429	...	13,429
Howard University	8,381	...	8,381	79,214	...	79,214	68,253	...	68,253
Total--Special institutions	12,233	...	12,233	112,485	...	112,485	100,438	...	100,438
Assistant Secretary for Human Development	39,232	...	39,232	421,707	...	421,707	383,788	...	383,788
Office of the Secretary:									
Intragovernmental funds	-36,873	...	-36,873	9,261	...	9,261	-12,473	...	-12,473
Office for Civil Rights	1,570	...	1,570	13,213	...	13,213	12,649	...	12,649
Departmental management	14,419	...	14,419	69,288	...	69,288	54,527	...	54,527
Proprietary receipts from the public	...	$628	-628	...	$13,679	-13,679	...	$26,737	-26,737
Intrabudgetary transactions:									
Payments for health insurance for the aged:									
Federal hospital insurance trust fund	...	...	...	-450,780	...	-450,780	-381,415	...	-381,415
Federal supplementary medical insurance trust fund	-174,642	...	-174,642	-2,028,926	...	-2,028,926	-1,430,451	...	-1,430,451
Payments for military service credits and special benefits for the aged:									
Federal old-age and survivors insurance trust fund	...	...	...	-441,788	...	-441,788	-474,645	...	-474,645
Federal disability insurance trust fund	...	...	...	-52,000	...	-52,000	-51,000	...	-51,000
Federal hospital insurance trust fund	...	...	...	-48,000	...	-48,000	-48,000	...	-48,000
Receipts transferred to railroad retirement account	...	...	...	-930,912	...	-930,912	-802,457	...	-802,457
Interest on reimbursement of administrative and vocational rehabilitation expenses:									
Federal old-age and survivors ins. trust fund	...	...	...	1,074	...	1,074	1,875	...	1,875
Federal disability insurance trust fund	...	...	...	-2,661	...	-2,661	260	...	260
Federal hospital insurance trust fund	...	...	...	269	...	269	-155	...	-155
Federal supplementary medical ins. trust fund	...	...	...	1,318	...	1,318	-1,979	...	-1,979
Other	-21,600	...	-21,600	-24,699	...	-24,699	-2,016	...	-2,016
Total--Health, Education, and Welfare Department	8,859,639	3,585	8,856,054	93,784,607	64,499	93,720,108	82,102,688	62,468	82,040,220

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Housing and Urban Development Department:									
Housing production and mortgage credit:									
Federal Housing Administration:									
Public enterprise funds:									
College housing loans and other expenses	$4,318	$5,969	-$1,651	$136,111	$172,139	-$36,028	$163,973	$159,943	$4,030
Housing for the elderly or handicapped fund	436	1,665	-1,229	7,956	21,493	-13,537	11,421	22,101	-10,680
FHA revolving fund	258,810	120,229	138,581	2,144,905	1,325,643	819,261	1,997,513	1,164,722	832,791
Other	40,203	35,327	4,876	650,891	639,096	11,795	653,037	666,198	-13,161
Other	126	....	126	5,246	....	5,246	15,748	....	15,748
Total--Federal Housing Administration	303,894	163,190	140,704	2,945,108	2,158,371	786,737	2,841,692	2,012,963	828,729
Government National Mortgage Association:									
Special assistance functions	114,023	109,829	4,194	1,895,200	1,853,427	41,772	1,665,247	1,866,238	-200,991
Management and liquidating functions	3,046	14,178	-11,132	69,453	135,693	-66,241	141,153	894,211	-753,059
Guarantees of mortgage-backed securities	1,034	1,881	-847	3,051	10,946	-7,895	529	5,195	-4,666
Participation sales fund	7,190	....	7,190	32,901	2,500	30,401	7,953	29,075	-21,122
Total--Government National Mortgage Association	125,292	125,888	-596	2,000,604	2,002,567	-1,963	1,814,882	2,794,719	-979,838
Total--Housing production and mortgage credit	429,186	289,077	140,109	4,945,712	4,160,938	784,774	4,656,573	4,807,683	-151,109
Housing management:									
Public enterprise funds:									
Rental housing assistance fund	-6	955	-960	-558	10,727	-11,285	-289	5,908	-6,198
Other	30	502	-472	731	6,925	-6,193	3,021	7,977	-4,956
Intragovernmental funds	3,618	....	3,618	-3,069	....	-3,069	52,182	....	52,182
Housing assistance payments:									
College housing grants	1,776	....	1,776	12,147	....	12,147	6,056	....	6,056
Low-rent public housing	90,640	....	90,640	1,115,778	....	1,115,778	1,043,214	....	1,043,214
Home ownership assistance	17,334	....	17,334	249,348	....	249,348	282,307	....	282,307
Rental housing assistance	12,883	....	12,883	270,196	....	270,196	170,303	....	170,303
Rent supplement	12,243	....	12,243	137,532	....	137,532	106,545	....	106,545
Other	687	....	687	26,035	....	26,035	22,341	....	22,341
Total--Housing management	139,205	1,457	137,749	1,808,139	17,651	1,790,488	1,685,680	13,885	1,671,795
Community planning and development:									
Urban renewal programs	123,329	104,950	18,379	2,056,507	930,522	1,125,984	1,804,917	812,555	992,362
Rehabilitation loan fund	4,040	1,574	2,466	22,829	17,984	4,845	41,697	15,995	25,702
Public facility loans	1,078	2,173	-1,095	45,538	27,254	18,284	38,840	26,376	12,464
Comprehensive planning grants	8,299	....	8,299	101,281	....	101,281	75,765	....	75,765
Salaries, expenses and other	1,200	....	1,200	36,298	....	36,298	38,304	....	38,304
Model cities programs	46,469	....	46,469	468,454	....	468,454	590,024	....	590,024
Open space land programs	8,245	....	8,245	79,928	....	79,928	61,485	....	61,485
Grants for neighborhood facilities	3,620	....	3,620	40,465	....	40,465	26,578	....	26,578
Grants for basic water and sewer facilities	11,907	....	11,907	136,055	....	136,055	156,533	....	156,533
Total--Community planning and development	208,188	108,697	99,491	2,987,355	975,760	2,011,595	2,834,144	854,926	1,979,218
New Communities Administration:									
New communities fund	-30	18	-48	241	3,946	-3,704	-73	3,482	-3,556
New communities assistance grants	195	....	195	686	....	686	122	....	122

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Housing and Urban Development Department--Continued									
Federal Insurance Administration:									
Public enterprise funds	$2,422	$775	$1,648	$48,548	$14,652	$33,897	$10,624	$8,757	$1,867
Other	1,326		1,326	13,149		13,149	6,240		6,240
Office of Interstate Land Sales Registration				1,460		1,460	627		627
Policy development and research	1,823		1,823	58,273		58,273	47,763		47,763
Fair Housing and equal opportunity	231		231	9,777		9,777	9,489		9,489
Departmental management:									
Intragovernmental funds	-5,170		-5,170	-2,521		-2,521	-16,471		-16,471
Other	1,017		1,017	47,796		47,796	46,517		46,517
Proprietary receipts from the public		5,731	-5,731		6,968	-6,968		235	-235
Total--Housing and Urban Development Department	778,395	405,755	372,640	9,918,615	5,179,915	4,738,701	9,281,237	5,688,969	3,592,268
Interior Department:									
Land and Water Resources:									
Bureau of Land Management:									
Management of lands and resources	10,744		10,744	108,090		108,090	95,478		95,478
Payment to counties, Oregon and California grant lands				47,191		47,191	37,667		37,667
Payment to states from receipts under Mineral Leasing Act				56,748		56,748	56,227		56,227
Other	4,046		4,046	34,422		34,422	36,463		36,463
Bureau of Reclamation:									
Colorado River and Fort Peck projects	20,463	2,806	17,657	125,281	50,466	74,815	127,659	52,607	75,052
Construction and rehabilitation	18,849		18,849	235,142		235,142	232,237		232,237
Other	15,436		15,436	141,066		141,066	139,434		139,434
Office of Water Resources Research	1,054		1,054	12,467		12,467	13,970		13,970
Total--Land and Water Resources	70,592	2,806	67,786	760,407	50,466	709,941	739,135	52,607	686,528
Fish and Wildlife and Parks:									
Bureau of Outdoor Recreation	28,765		28,765	251,922		251,922	209,340		209,340
Bureau of Sport Fisheries and Wildlife	12,965		12,965	161,955		161,955	151,641		151,641
National Park Service	25,132		25,132	250,517		250,517	208,925		208,925
Energy and Minerals:									
Geological Survey	13,775		13,775	179,937		179,937	138,439		138,439
Mining Enforcement and Safety Administration and Bureau of Mines:									
Helium fund	573	511	62	6,437	8,050	-1,613	7,141	8,322	-1,181
Other	18,311		18,311	162,493		162,493	138,250		138,250
Office of Coal Research	7,206		7,206	60,670		60,670	36,505		36,505
Fuel Allocation, Oil and Gas Programs	[7] -4,382		-4,382	17,723		17,723	1,604		1,604
Bonneville Power Administration	11,858		11,858	152,794		152,794	135,234		135,234
Other power administrations	427		427	6,201		6,201	7,552		7,552
Total--Energy and Minerals	47,769	511	47,258	586,254	8,050	578,205	464,726	8,322	456,405
Bureau of Indian Affairs:									
Public enterprise funds	386	462	-76	2,100	2,408	-308	1,407	2,137	-729
Operation of Indian programs	31,993		31,993	396,729		396,729	374,843		374,843
Indian tribal funds	10,287		10,287	260,516		260,516	197,228		197,228
Other	8,606		8,606	180,812		180,812	140,751		140,751
Total--Bureau of Indian Affairs	51,272	462	50,810	840,156	2,408	837,748	714,230	2,137	712,093

See footnotes on page 3.

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Interior Department--Continued									
Office of Territorial Affairs	$106	....	$106	$92,849	....	$92,849	$105,116	....	$105,116
Office of the Solicitor and Office of the Secretary	110	....	110	43,408	....	43,408	53,661	....	53,661
Proprietary receipts from the public:									
Royalties and Rent on Outer Continental Shelf Lands	....	$1,514,857	-1,514,857	....	$6,748,394	-6,748,394	....	$3,955,577	-3,955,577
Other	....	83,467	-83,467	....	924,820	-924,820	....	756,943	-756,943
Intrabudgetary transactions	-17,308	....	-17,308	-125,506	....	-125,506	-107,630	....	-107,630
Total--Interior Department	219,402	1,602,103	-1,382,700	2,861,963	7,734,137	-4,872,175	2,539,144	4,775,585	-2,236,441
Justice Department:									
General administration	-3,634	....	-3,634	17,713	....	17,713	11,833	....	11,833
Legal activities	20,292	....	20,292	182,464	....	182,464	167,968	....	167,968
Federal Bureau of Investigation	33,360	....	33,360	380,581	....	380,581	356,427	....	356,427
Immigration and Naturalization Service	12,707	....	12,707	148,788	....	148,788	137,063	....	137,063
Federal Prison System:									
Federal Prison Industries, Inc. (net)	-679	....	-679	-1,195	....	-1,195	1,795	....	1,795
Federal prisons commissary funds	568	596	-28	6,642	6,928	-286	5,770	5,969	-200
Other	17,438	....	17,438	203,383	....	203,383	156,614	....	156,614
Law Enforcement Assistance Administration	78,315	....	78,315	771,302	....	771,302	624,006	....	624,006
Drug Enforcement Administration	7,230	....	7,230	97,620	....	97,620	77,330	....	77,330
Proprietary receipts from the public	....	262	-262	....	3,141	-3,141	....	2,115	-2,115
Total--Justice Department	165,596	859	164,737	1,807,297	10,069	1,797,228	1,538,806	8,084	1,530,722
Labor Department:									
Manpower Administration:									
Comprehensive manpower assistance	178,706	....	178,706	1,453,132	....	1,453,132	1,477,282	....	1,477,282
Emergency employment assistance	27,417	....	27,417	604,337	....	604,337	1,014,174	....	1,014,174
Federal unemployment benefits and allowances	29,920	....	29,920	361,855	....	361,855	390,599	....	390,599
Grants to states for unemployment insurance and employment services	12,469	....	12,469	59,527	....	59,527	63,600	....	63,600
Program administration, and other	5,497	....	5,497	57,043	....	57,043	207,408	....	207,408
Unemployment trust fund:									
Unemployment insurance and employment services:									
Federal--State unemployment insurance:									
State unemployment benefits	454,805	....	454,805	5,138,719	....	5,138,719	4,404,723	....	4,404,723
State administrative expenses	84,541	....	84,541	831,699	....	831,699	814,174	....	814,174
Federal administrative expenses:									
Direct expenses, reimbursements and recoveries	3,428	....	3,428	69,956	....	69,956	52,254	....	52,254
Interest on refunds	63	....	63	625	....	625	386	....	386
Repayment of advancement from the general fund	50,000	....	50,000	50,000	....	50,000	....	....	....
Railroad unemployment insurance:									
Railroad unemployment benefits	3,061	....	3,061	50,472	....	50,472	72,827	....	72,827
Administration expenses	532	....	532	6,885	....	6,885	7,234	....	7,234
Payments of interest on borrowings from railroad retirement account	....	....	....	80	....	80	2,245	....	2,245
Total--Unemployment trust fund	596,430	....	596,430	6,148,436	....	6,148,436	5,353,843	....	5,353,843
Total--Manpower Administration	850,439	....	850,439	8,684,329	....	8,684,329	8,506,907	....	8,506,907
Labor-Management Services Administration	1,631	....	1,631	23,188	....	23,188	24,183	....	24,183
Employment Standards Administration:									
Salaries and expenses	3,810	....	3,810	54,664	....	54,664	52,791	....	52,791
Federal workmen's compensation benefits	25,485	....	25,485	106,534	....	106,534	102,097	....	102,097
Other	574	....	574	2,492	....	2,492	633	....	633

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Labor Department--Continued									
Occupational Safety and Health Administration	$9,185	....	$9,185	$69,072	....	$69,072	$37,428	....	$37,428
Bureau of Labor Statistics	3,374	....	3,374	48,840	....	48,840	44,331	....	44,331
Departmental management	2,683	....	2,683	24,231	....	24,231	19,009	....	19,009
Proprietary receipts from the public	....	-$157	157	....	$1,464	-1,464	....	$1,303	-1,303
Intrabudgetary transactions	-49,500	....	-49,500	-40,976	....	-40,976	-147,498	....	-147,498
Total--Labor Department	847,681	-157	847,839	8,972,375	1,464	8,970,912	8,639,882	1,303	8,638,578
State Department:									
Administration of foreign affairs:									
Intragovernmental funds	-448	....	-448	-1,665	....	-1,665	49	....	49
Salaries and expenses	14,257	....	14,257	341,678	....	341,678	254,428	....	254,428
Acquisition, operation and maintenance of buildings abroad	3,233	....	3,233	28,372	....	28,372	19,257	....	19,257
Payment to foreign service retirement and disability fund	33,963	....	33,963	36,935	....	36,935	14,208	....	14,208
Foreign service retirement and disability fund	1,397	....	1,397	36,936	....	36,936	30,754	....	30,754
Other	241	....	241	2,589	....	2,589	2,335	....	2,335
Total--Administration of foreign affairs	52,643	....	52,643	444,845	....	444,845	321,031	....	321,031
International organizations and conferences	3,975	....	3,975	218,398	....	218,398	182,354	....	182,354
International commissions	1,906	....	1,906	16,798	....	16,798	11,238	....	11,238
Educational exchange	5,597	....	5,597	53,633	....	53,633	49,853	....	49,853
Other	2,212	....	2,212	45,699	....	45,699	46,953	....	46,953
Proprietary receipts from the public	....	650	-650	....	7,269	-7,269	....	5,137	-5,137
Intrabudgetary transactions:									
Foreign service retirement and disability fund:									
Receipts transferred to civil service retirement and disability fund	-5	....	-5	-103	....	-103	-129	....	-129
General fund contributions	-33,963	....	-33,963	-36,935	....	-36,935	-14,208	....	-14,208
Other	-130	....	-130	-2,719	....	-2,719	-467	....	-467
Total--State Department	32,235	650	31,585	739,615	7,269	732,346	596,625	5,137	591,489
Transportation Department:									
Office of the Secretary	8,860	....	8,860	75,737	....	75,737	48,141	....	48,141
Coast Guard:									
Trust revolving funds	233	445	-212	4,406	4,442	-36	3,883	3,960	-77
Intragovernmental funds	1,749	....	1,749	-7,082	....	-7,082	4,868	....	4,868
Other	77,035	....	77,035	855,058	....	855,058	777,934	....	777,934
Federal Aviation Administration:									
Aviation war risk insurance revolving fund	6	3	3	394	19	375	529	2,186	-1,657
Airport and airway:									
Operations	147,640	....	147,640	1,299,640	....	1,299,640	1,178,374	....	1,178,374
Facilities and equipment	21,481	....	21,481	207,496	....	207,496	321,768	....	321,768
Grants-in-aid for airports	60,323	....	60,323	242,990	....	242,990	232,346	....	232,346
Research, engineering and development	4,801	....	4,801	68,314	....	68,314	66,663	....	66,663
Interest on refunds of taxes	....	....	....	39	....	39	26	....	26
Civil supersonic aircraft development--termination	362	....	362	18,733	....	18,733	13,599	....	13,599
Federal payment to the airport and airway trust fund	....	....	....	....	....	....	73,397	....	73,397
Other	2,200	....	2,200	18,174	....	18,174	36,985	....	36,985
Total--Federal Aviation Administration	236,813	3	236,810	1,855,779	19	1,855,760	1,923,687	2,186	1,921,501

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Transportation Department--Continued									
Federal Highway Administration:									
Highway beautification	$2,585	....	$2,585	$28,268	....	$28,268	$19,229	....	$19,229
Forest and public lands highways	1,913	....	1,913	17,773	....	17,773	34,925	....	34,925
Highway trust fund:									
Federal-aid highways	611,061	....	611,061	4,440,444	....	4,440,444	4,729,726	....	4,729,726
Right of way revolving fund	-4,962	....	-4,962	23,002	....	23,002	24,904	....	24,904
Other	3,517	....	3,517	23,327	....	23,327	5,597	....	5,597
Other	13,417	....	13,417	52,130	....	52,130	-2,623	....	-2,623
Total--Federal Highway Administration	627,531	....	627,531	4,584,944	....	4,584,944	4,811,758	....	4,811,758
National Highway Traffic Safety Administration:									
Traffic and highway safety	2,964	....	2,964	38,735	....	38,735	46,407	....	46,407
State and community highway safety programs	3,552	....	3,552	28,743	....	28,743	43,124	....	43,124
Highway trust fund share of safety programs	7,287	....	7,287	89,449	....	89,449	50,809	....	50,809
Federal Railroad Administration:									
Alaska Railroad	2,405	$2,581	-176	26,354	$27,424	-1,070	27,225	$25,677	1,549
Railroad research and development	2,447	....	2,447	38,281	....	38,281	41,416	....	41,416
Grants to National Railroad Passenger Corporation	25,609	....	25,609	152,504	....	152,504	105,800	....	105,800
Other	472	....	472	9,743	....	9,743	9,088	....	9,088
Urban Mass Transportation Administration:									
Urban mass transportation fund	70,630	175	70,456	439,535	20,579	418,957	415,535	516	415,018
Administrative expenses	....	....	....	(*)	....	(*)	6	....	6
Saint Lawrence Seaway Development Corporation	464	1,123	-659	4,700	7,459	-2,759	4,274	8,496	-4,221
National Transportation Safety Board	828	....	828	8,063	....	8,063	7,366	....	7,366
Proprietary receipts from the public	....	4,455	-4,455	....	30,858	-30,858	....	24,018	-24,018
Intrabudgetary transactions	....	....	....	....	....	....	-73,397	....	-73,397
Total--Transportation Department	1,068,878	8,781	1,060,097	8,204,949	90,780	8,114,169	8,247,924	64,852	8,183,072
Treasury Department:									
Office of the Secretary:									
Public enterprise funds	....	....	....	-6	504	-509	(*)	739	-739
Salaries and expenses	1,689	....	1,689	17,356	....	17,356	15,701	....	15,701
Other	489	....	489	2,065	....	2,065	3,255	....	3,255
Bureau of Government Financial Operations: [8]									
Check forgery insurance fund	2	....	2	10	....	10	8	....	8
Salaries and expenses	22,897	....	22,897	89,351	....	89,351	73,231	....	73,231
Claims, judgements and relief acts	22,102	....	22,102	110,899	....	110,899	86,835	....	86,835
Interest on uninvested funds	2,768	....	2,768	6,091	....	6,091	6,462	....	6,462
Payment of Government losses in shipment	3	....	3	413	....	413	293	....	293
Eisenhower College grants	....	....	....	....	....	....	72	....	72
Other	9	....	9	2,483	....	2,483	21	....	21
Total--Bureau of Government Financial Operations	47,780	....	47,780	209,247	....	209,247	166,923	....	166,923
Bureau of Alcohol, Tobacco and Firearms	6,846	....	6,846	78,806	....	78,806	70,052	....	70,052
United States Customs Service:									
Salaries and expenses	15,406	....	15,406	225,378	....	225,378	204,855	....	204,855
Other	14,061	....	14,061	104,775	....	104,775	86,298	....	86,298
Bureau of Engraving and Printing	2,567	....	2,567	1,518	....	1,518	-1,270	....	-1,270

See footnotes on page 3.

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Treasury Department--Continued									
Bureau of the Mint	$569	....	$569	$22,245	....	$22,245	$22,535	....	$22,535
Bureau of the Public Debt	4,064	....	4,064	75,909	....	75,909	72,465	....	72,465
Internal Revenue Service:									
Salaries and expenses	3,333	....	3,333	36,073	....	36,073	34,363	....	34,363
Accounts, collection and taxpayer service	58,012	....	58,012	583,515	....	583,515	513,377	....	513,377
Compliance	59,144	....	59,144	649,993	....	649,993	597,869	....	597,869
Interest on refunds of taxes	20,297	....	20,297	220,250	....	220,250	175,437	....	175,437
Payments to Puerto Rico for taxes collected	4,272	....	4,272	101,484	....	101,484	109,467	....	109,467
Federal tax lien revolving fund	....	$4	-4	320	$311	9	186	$202	-16
Total--Internal Revenue Service	145,058	4	145,054	1,591,635	311	1,591,324	1,430,700	202	1,430,498
U.S. Secret Service	5,602	....	5,602	68,033	....	68,033	67,840	....	67,840
Office of the Comptroller of the Currency	4,884	374	4,510	47,577	52,052	-4,475	41,133	47,202	-6,069
Interest on the public debt (accrual basis):									
Public issues	1,978,541	....	1,978,541	22,898,573	....	22,898,573	18,967,267	....	18,967,267
Special issues	558,860	....	558,860	6,420,360	....	6,420,360	5,200,226	....	5,200,226
Total--Interest on the public debt	2,537,401	....	2,537,401	29,318,933	....	29,318,933	24,167,493	....	24,167,493
General revenue sharing	-233	....	-233	6,105,922	....	6,105,922	6,636,369	....	6,636,369
Proprietary receipts from the public	....	15,316	-15,316	....	368,023	-368,023	....	598,466	-598,466
Receipts from off-budget Federal agencies	....	74,808	-74,808	....	205,489	-205,489	....	123,406	-123,406
Intrabudgetary transactions	-149,845	....	-149,845	-1,244,229	....	-1,244,229	-1,251,700	3,127	-1,254,827
Total--Treasury Department	2,636,337	90,502	2,545,835	36,625,165	626,380	35,998,785	31,732,647	773,141	30,959,506
Atomic Energy Commission	345,435	20	345,415	2,307,791	580	2,307,212	2,393,483	475	2,393,008
Environmental Protection Agency:									
Revolving fund for certification and other services	1	22	-21	690	513	177	846	637	209
Other	326,173	167	326,006	2,030,413	268	2,030,145	1,113,538	83	1,113,455
General Services Administration:									
Real property activities:									
Intragovernmental funds	34,530	....	34,530	22,670	....	22,670	-14,967	....	-14,967
Construction, public buildings projects	5,629	....	5,629	129,920	....	129,920	174,161	....	174,161
Operating expenses, public buildings service	5,448	....	5,448	519,715	....	519,715	475,824	....	475,824
Repair and improvement of public buildings	50,757	....	50,757	135,940	....	135,940	75,791	....	75,791
Other	2,894	....	2,894	23,663	....	23,663	34,230	....	34,230
Total--Real property activities	99,258	....	99,258	831,909	....	831,909	745,039	....	745,039
Personal property activities:									
Intragovernmental funds	4,304	....	4,304	31,211	....	31,211	35,244	....	35,244
Other	9,227	....	9,227	105,239	....	105,239	92,969	....	92,969

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
General Services Administration--Continued									
Records activities:									
National Archives trust fund	$532	$645	-$113	$5,019	$5,549	-$530	$4,670	$5,806	-$1,135
Other	4,437	....	4,437	40,181	....	40,181	32,352	....	32,352
Automated data and telecommunications activities:									
Intragovernmental funds	9,568	....	9,568	17,112	....	17,112	-6,788	....	-6,788
Other	662	....	662	6,592	....	6,592	6,096	....	6,096
Property management and disposal activities	3,448	....	3,448	18,706	....	18,706	30,806	....	30,806
Preparedness Activities:									
Public enterprise funds	(*)	1	(*)	1	30	-29	51	179	-128
Other	2,111	....	2,111	8,430	....	8,430	9,087	....	9,087
General activities:									
Public enterprise funds	....	51	-51	5	965	-960	....	1,014	-1,014
Intragovernmental funds	3,143	....	3,143	1,449	....	1,449	-1,656	....	-1,656
Other	723	....	723	5,847	....	5,847	3,123	....	3,123
Proprietary receipts from the public:									
Stockpile receipts	....	140,002	-140,002	....	1,282,162	-1,282,162	....	377,482	-377,482
Other	....	4,072	-4,072	....	40,935	-40,935	....	98,289	-98,289
Intrabudgetary transactions	-251	....	-251	-6,332	....	-6,332	-697	....	-697
Total--General Services Administration	137,162	144,770	-7,608	1,065,370	1,329,641	-264,272	950,297	482,769	467,529
National Aeronautics and Space Administration	424,744	1,943	422,801	3,260,255	32,115	3,228,140	3,324,391	13,391	3,311,000
Veterans Administration:									
Public enterprise funds:									
Loan guaranty revolving fund	31,799	17,561	14,237	455,406	390,759	64,647	412,448	561,231	-148,783
Direct loan revolving fund	5,323	12,663	-7,340	93,697	193,164	-99,466	123,450	364,572	-241,122
Other	18,094	41,028	-22,934	231,254	302,786	-71,532	227,335	289,001	-61,666
Compensation, pensions, and benefit programs	743,049	....	743,049	9,883,445	....	9,883,445	9,295,715	....	9,295,715
Medical care	234,224	....	234,224	2,788,789	....	2,788,789	2,512,316	....	2,512,316
Insurance funds:									
Government life	6,529	736	5,793	86,980	9,240	77,740	76,451	10,198	66,253
National service life	54,585	6,510	48,075	710,750	87,823	622,927	610,176	91,280	518,896
Other	40,532	15	40,517	553,425	160	553,265	525,798	171	525,627
Proprietary receipts from the public:									
Government life insurance fund	....	659	-659	....	7,301	-7,301	....	7,963	-7,963
National service life insurance fund	....	37,090	-37,090	....	468,036	-468,036	....	486,697	-486,697
Other	....	187	-187	....	2,081	-2,081	....	1,996	-1,996
Intrabudgetary transactions:									
Payments to veterans life insurance funds:									
Government life insurance fund	-5	....	-5	-45	....	-45	-50	....	-50
National service life insurance fund	-161	....	-161	-2,138	....	-2,138	-2,379	....	-2,379
Total--Veterans Administration	1,133,968	116,449	1,017,519	14,801,563	1,461,348	13,340,214	13,781,260	1,813,107	11,968,152
Other independent agencies:									
Action	15,191	108	15,084	165,913	298	165,614	152,460	296	152,164
Administrative Conference of the United States	76	....	76	528	....	528	364	....	364
Advisory Committee on Federal Pay	8	....	8	63	....	63	....	....	....
American Battle Monuments Commission	317	(*)	317	4,158	3	4,155	3,425	4	3,422
Arms Control and Disarmament Agency	550	(*)	550	8,801	(*)	8,800	8,686	(*)	8,685
Board for International Broadcasting	4,500	....	4,500	50,650	....	50,650	38,520	....	38,520
Cabinet Committee on Opportunities for Spanish-Speaking People	115	....	115	1,044	....	1,044	930	....	930
Civil Aeronautics Board:									
Salaries and expenses	1,450	....	1,450	15,297	....	15,297	14,325	....	14,325
Payments to air carriers	6,211	....	6,211	73,362	....	73,362	72,223	....	72,223
Proprietary receipts from the public	....	8	-8	....	146	-146	....	132	-132

See footnotes on page 3.

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Other independent agencies--Continued									
Civil Service Commission:									
Payment to civil service retirement and disability fund	$2,383,324	...	$2,383,324	$2,384,236	...	$2,384,236	$1,760,481	...	$1,760,481
Government payment for annuitants, employees health benefits	38,800	...	38,800	163,114	...	163,114	137,608	...	137,608
Civil service retirement and disability fund	499,751	...	499,751	5,668,969	...	5,668,969	4,523,296	...	4,523,296
Employees health benefits fund	172,737	$148,829	23,909	1,425,169	$1,487,213	-62,044	1,426,151	$1,406,890	19,262
Employees life insurance fund	29,157	33,558	-4,401	360,240	515,689	-155,450	340,702	491,760	-151,057
Retired employees health benefits fund	1,517	839	678	17,312	12,041	5,271	13,877	15,644	-1,767
Other	9,274	...	9,274	88,720	...	88,720	80,586	...	80,586
Proprietary receipts from the public	...	(*)	(*)	...	730	-730	...	1,224	-1,224
Intrabudgetary transactions:									
Civil service retirement and disability fund:									
Receipts transferred to foreign service retirement and disability fund	-3,646	...	-3,646	-15,279	...	-15,279	-5,541	...	-5,541
General fund contributions	-2,383,324	...	-2,383,324	-2,384,236	...	-2,384,236	-1,760,481	...	-1,760,481
Total--Civil Service Commission	747,590	183,226	564,364	7,708,245	2,015,673	5,692,572	6,516,681	1,915,518	4,601,163
Commission of Fine Arts	14	...	14	135	...	135	144	...	144
Commission on Civil Rights	699	...	699	6,055	...	6,055	4,624	...	4,624
Committee for Purchase of Products and Services of the Blind and Other Severely Handicapped	22	...	22	190	...	190	140	...	140
Consumer Product Safety	2,458	1	2,456	18,711	2	18,709	20	...	20
Corporation for Public Broadcasting	998	...	998	47,750	...	47,750	35,000	...	35,000
District of Columbia:									
Federal payment	...	...	...	191,533	...	191,533	185,574	...	185,574
Loans and repayable advances	16,566	5,000	11,566	153,543	12,943	140,599	175,532	51,661	123,871
Emergency Loan Guarantee Board	-125	...	-125	-2,863	2,006	-4,868	-860	1,729	-2,589
Equal Employment Opportunity Commission	4,036	2	4,035	41,098	5	41,093	28,310	2	28,308
Farm Credit Administration:									
Public enterprise funds	501	1,543	-1,042	5,696	5,788	-91	5,513	5,633	-120
Proprietary receipts from the public	...	(*)	(*)	...	2	-2	...	2	-2
Federal Communications Commission	3,259	2	3,257	38,146	22	38,124	33,888	55,778	-21,890
Federal Deposit Insurance Corporation	70,047	14,299	55,748	471,421	694,656	-223,235	97,244	635,421	-538,177
Federal Field Committee for Development Planning in Alaska	...	...	...	...	...	...	(*)	...	(*)
Federal Home Loan Bank Board:									
Public enterprise funds:									
Federal Savings and Loan Insurance Corp. Fund	-2,082	15,052	-17,134	8,380	385,455	-377,075	-59,465	195,653	-255,119
Federal Home Loan Bank Board Revolving Fund	3,022	2,922	100	39,332	34,785	4,547	28,975	26,273	2,702
Interest adjustment payments	202	...	202	2,707	...	2,707	2,988	...	2,988
Federal Maritime Commission	750	2	748	6,488	13	6,475	5,385	28	5,357
Federal Mediation and Conciliation Service	930	(*)	930	11,783	1	11,782	10,641	(*)	10,641
Federal Metal and Nonmetallic Mine Safety Board of Review	2	...	2	36	...	36	37	...	37
Federal Power Commission	2,372	-4,269	6,641	26,669	13	26,656	22,473	13	22,460
Federal Trade Commission	2,437	2	2,435	32,364	20	32,344	26,614	15	26,599
Foreign Claims Settlement Commission	124	...	124	5,630	...	5,630	768	...	768
Historical and Memorial Commissions	676	...	676	10,359	5,285	5,074	7,066	5,103	1,963
Indian Claims Commission	121	(*)	121	1,185	(*)	1,185	1,060	(*)	1,060

See footnotes on page 3.

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Other independent agencies--Continued									
Intergovernmental agencies:									
Washington Metropolitan Area Transit Authority	$6,677	....	$6,677	$170,453	....	$170,453	$75,825	....	$75,825
Other	857	$202	655	4,048	$1,215	2,833	4,005	$1,200	2,805
Interstate Commerce Commission	3,488	1	3,487	38,097	367	37,731	44,915	632	44,283
Marine Mammal Commission	28	....	28	134	....	134	....	....	....
National Capital Planning Commission	175	....	175	1,510	(*)	1,510	1,302	....	1,302
National Commission on Libraries and Information Science	51	....	51	454	1	453	277	....	277
National Council on Indian Opportunity	16	(*)	16	314	(*)	314	218	....	218
National Credit Union Administration	2,051	1,023	1,027	12,300	24,914	-12,615	11,759	22,611	-10,852
National Foundation on the Arts and the Humanities	9,552	(*)	9,552	92,764	5	92,759	66,935	2	66,934
National Labor Relations Board	5,872	48	5,824	55,312	239	55,073	48,414	139	48,275
National Mediation Board	232	1	232	2,835	6	2,829	2,814	(*)	2,814
National Science Foundation	58,279	2	58,277	650,763	331	650,432	584,914	180	584,734
Occupational Safety and Health Review Commission	517	....	517	4,593	....	4,593	3,934	....	3,934
Pennsylvania Avenue Development Corporation	42	....	42	556	....	556	....	....	....
Postal Service:[9]									
Payment to the Postal Service Fund	220,000	....	220,000	1,698,000	....	1,698,000	1,410,000	....	1,410,000
Postal Service Fund	....	....	....	....	....	....	10,092,451	9,935,732	156,719
President's Council on Youth Opportunity	....	....	....	....	....	....	6	....	6
Railroad Retirement Board:									
Payment for military service credits	....	....	....	22,478	....	22,478	21,645	....	21,645
Railroad retirement accounts:									
Administrative expenses	1,618	....	1,618	21,603	....	21,603	20,332	....	20,332
Benefit payments, etc.	231,916	....	231,916	2,648,547	....	2,648,547	2,419,033	....	2,419,033
Interest on refunds of taxes	....	....	....	8	....	8	18	....	18
Payment to railroad unemployment ins. account	....	....	....	....	....	....	5,572	....	5,572
Proprietary receipts from the public	....	(*)	(*)	....	(*)	(*)	....	1	-1
Intrabudgetary transactions:									
Railroad retirement accounts:									
Payment for military service credits	....	....	....	-22,478	....	-22,478	-21,645	....	-21,645
Payment from railroad retirement supplemental receipts transferred to railroad unemployment insurance account	-5,067	....	-5,067	-5,067	....	-5,067	-5,572	....	-5,572
Interest on advances to railroad unemployment insurance account	....	....	....	....	....	....	-2,245	....	-2,245
Insurance transferred to federal hospital insurance trust fund	....	....	....	3,019	....	3,019	2,016	....	2,016
Total--Railroad Retirement Board	228,467	(*)	228,467	2,668,110	(*)	2,668,109	2,439,154	1	2,439,154
Renegotiation Board	369	(*)	369	4,709	(*)	4,708	4,721	2	4,719
Securities and Exchange Commission	3,622	2	3,620	34,603	21	34,582	29,865	15	29,850
Selective Service System	3,219	(*)	3,218	59,526	22	59,504	78,988	14	78,974
Small Business Administration:									
Public enterprise funds:									
Business loan and investment fund	36,172	27,664	8,509	564,974	311,088	253,886	466,602	313,165	153,437
Disaster loan fund	20,692	15,558	5,134	637,653	175,634	462,019	1,257,154	111,531	1,145,623
Lease guarantees revolving fund	634	287	346	7,339	5,326	2,013	2,462	4,233	-1,771
Other	-360	....	-360	23,634	....	23,634	19,391	....	19,391
Proprietary receipts from the public	....	1	-1	....	11	-11	....	11	-11
Intrabudgetary transactions	....	....	....	....	....	....	(*)	....	(*)
Total--Small Business Administration	57,138	43,510	13,628	1,233,600	492,059	741,541	1,745,609	428,939	1,316,670

See footnotes on page 3.

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Other independent agencies--Continued									
Smithsonian Institution	$7,914	$1	$7,913	$83,888	$14	$83,874	$70,554	$11	$70,544
Subversive Activities Control Board	3	....	3	11	....	11	338	(*)	338
Tariff Commission	835	....	835	7,079	....	7,079	5,579	....	5,579
Temporary Study Commissions	992	(*)	992	7,181	550	6,631	10,712	(*)	10,712
Tennessee Valley Authority:									
Tennessee Valley Authority fund	149,060	66,835	82,225	1,265,145	864,038	401,107	1,130,516	763,026	367,490
Proprietary receipts from the public	....	4	-4	....	32	-32	....	26	-26
Total--Tennessee Valley Authority	149,060	66,839	82,220	1,265,145	864,070	401,075	1,130,516	763,052	367,464
United States Information Agency:									
Salaries and expenses	38,367	....	38,367	207,773	....	207,773	198,529	....	198,529
Acquisition and construction of radio facilities	62	....	62	1,534	....	1,534	2,388	....	2,388
Other	602	....	602	5,194	....	5,194	5,607	....	5,607
Proprietary receipts from the public	....	45	-45	....	548	-548	....	411	-411
Total--U.S. Information Agency	39,031	45	38,986	214,501	548	213,953	206,524	411	206,113
United States Railway Association	350	....	350	1,200	....	1,200	....	....	....
Water Resources Council:									
Planning expenses and other	1,110	50	1,060	9,858	906	8,952	8,655	923	7,732
Intrabudgetary transactions	-162	....	-162	-2,155	....	-2,155	-1,809	....	-1,809
Total--Other independent agencies	1,682,821	329,622	1,353,200	17,463,795	4,542,384	12,921,411	25,496,462	14,047,125	11,449,337
Undistributed intragovernmental transactions:									
Federal employer contributions to retirement and social insurance funds:									
Legislative Branch:									
United States Tax Court:									
Tax court judges survivors annuity fund	....	....	....	-30	....	-30	-30	....	-30
The Judiciary:									
Judicial survivors annuity fund	-124	....	-124	-751	....	-751	-743	....	-743
Health, Education, and Welfare Department:									
Federal old-age and survivors insurance trust fund	-64,000	....	-64,000	-677,000	....	-677,000	-615,000	....	-615,000
Federal disability insurance trust fund	-8,000	....	-8,000	-87,000	....	-87,000	-80,000	....	-80,000
Federal hospital insurance trust fund	-13,000	....	-13,000	-147,000	....	-147,000	-121,000	....	-121,000
State Department:									
Foreign service retirement and disability fund	-841	....	-841	-9,323	....	-9,323	-8,802	....	-8,802
Other independent agencies:									
Civil Service Commission:									
Civil service retirement and disability fund	-140,834	....	-140,834	-1,755,618	....	-1,755,618	-2,101,029	....	-2,101,029
Receipts from off-budget federal agencies:									
Other independent agencies:									
Civil Service Commission:									
Civil Service Retirement and Disability Fund	-179,358	....	-179,358	-642,031	....	-642,031	....	....	....
Subtotal	-406,158	....	-406,158	-3,318,754	....	-3,318,754	-2,926,604	....	-2,926,604

See footnotes on page 3.

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Undistributed intragovernmental transactions--Continued									
Interest on certain Government accounts:									
Interest credited to certain Government accounts:									
The Judiciary:									
Judicial survivors annuity fund	-$79		-$79	-$428		-$428	-$360		-$360
Defense Department:									
Civil:									
Soldiers' and Airmen's Home permanent fund	-2,617		-2,617	-4,112		-4,112	-3,101		-3,101
Health, Education, and Welfare Department:									
Federal old-age and survivors ins. trust fund	-875,433		-875,433	-2,039,730		-2,039,730	-1,847,842		-1,847,842
Federal disability insurance trust fund	-222,352		-222,352	-479,022		-479,022	-434,739		-434,739
Federal hospital insurance trust fund	-203,598		-203,598	-405,523		-405,523	-195,673		-195,673
Federal supplementary medical ins. trust fund	-32,952		-32,952	-77,243		-77,243	-43,070		-43,070
Interior Department:									
Indian tribal funds				-5,346		-5,346	-18,968		-18,968
Labor Department:									
Unemployment trust fund	-229,636		-229,636	-649,666		-649,666	-487,330		-487,330
State Department:									
Foreign service retirement and disability fund	-1,823		-1,823	-3,752		-3,752	-2,986		-2,986
Transportation Department:									
Airport and airway trust fund	-20,972		-20,972	-28,107		-28,107			
Highway trust fund	-208,301		-208,301	-414,574		-414,574	-246,740		-246,740
Veterans Administration:									
Government life insurance fund	-15,263		-15,263	-31,098		-31,098	-31,053		-31,053
National service life insurance fund	-161,578		-161,578	-338,258		-338,258	-308,959		-308,959
Civil Service Commission:									
Civil service retirement and disability fund	-815,396		-815,396	-1,837,601		-1,837,601	-1,566,219		-1,566,219
Railroad Retirement Board:									
Railroad retirement accounts	-93,361		-93,361	-257,039		-257,039	-263,622		-263,622
Other	-87		-87	-2,907		-2,907	-1,667		-1,667
Adjustment of interest on public debt issues to convert to the accrual basis	2,237,914		2,237,914	-45,238		-45,238			
Subtotal	-645,534		-645,534	-6,619,644		-6,619,644	-5,452,330		-5,452,330
Total--Undistributed intragovernmental transactions	-1,051,691		-1,051,691	-9,938,397		-9,938,397	-8,378,934		-8,378,934
Total outlays	28,333,186	$4,210,567	24,122,619	302,505,087	$34,162,135	268,342,952	289,082,372	$42,556,387	246,525,985
TOTAL BUDGET			(Net Totals)			(Net Totals)			(Net Totals)
Receipts (+)			31,174,158			264,847,484			232,225,472
Outlays (-)			-24,122,619			-268,342,952			-246,525,985
Budget surplus (+) or deficit (-)			7,051,539			-3,495,468			-14,300,514

MEMORANDUM

Receipts offset against outlays (In thousands)

	Current Fiscal Year to Date	Comparable Period Prior Fiscal Year
Proprietary receipts	$14,182,933	$9,710,856
Receipts from off-budget Federal agencies	205,489	123,406
Intrabudgetary transactions	23,906,242	23,302,994
Total receipts offset against outlays	38,294,664	33,137,256

24 TABLE IV--MEANS OF FINANCING (In thousands

Classification (Assets and Liabilities Directly Related to the Budget)	Net Transactions (-) denotes net reduction of either liability or assets accounts			Account Balances Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This Month
		This Year	Prior Year	This Year	This Month	
LIABILITY ACCOUNTS						
Borrowing from the public:						
Public debt securities, issued under general financing authorities:						
Obligations of the United States, issued by:						
United States Treasury	$384,779	$16,918,210	$30,881,144	$458,141,605	$474,675,036	$475,059,816
Federal Financing Bank	....	....	....	....	....	....
Total, Public debt securities	384,779	16,918,210	30,881,144	458,141,605	474,675,036	475,059,816
Agency securities, issued under special financing authorities (See Schedule B. For other agency borrowing, see Schedule C.)	37,312	911,797	215,501	11,109,063	11,983,547	12,020,859
Total Federal securities	422,092	17,830,007	31,096,645	469,250,668	486,658,583	487,080,675
Deduct:						
Federal securities held as investments of Government accounts (See Schedule D)	4,298,856	14,812,642	11,821,634	125,381,073	135,894,859	140,193,715
Non-interest-bearing public debt securities held by International Monetary Fund	....	....	....	825,000	825,000	825,000
Total borrowing from the public	-3,876,764	3,017,365	19,275,011	343,044,595	349,938,724	346,061,960
Accrued interest payable on public debt securities	-1,733,529	46,613	232,388	2,874,000	4,654,142	2,920,613
Deduct:						
Accrued interest receivable on public debt securities held as investments of government accounts	-2,237,914	[10] 368,612	....	....	2,606,526	368,612
Total accrued interest payable to the public	504,385	-321,999	232,388	2,874,000	2,047,616	2,552,001
Deposit funds:						
Allocations of special drawing rights	....	276,733	....	2,490,606	2,767,339	2,767,339
Other	-679,847	-511,889	-885,774	3,653,452	3,821,411	3,141,564
Miscellaneous liability accounts (includes checks outstanding etc.)	-370,439	-1,027,887	-2,408,909	7,493,885	6,836,437	6,465,998
Total liability accounts	-4,422,665	1,432,323	16,212,715	359,556,538	365,411,526	360,988,861
ASSET ACCOUNTS (Deduct)						
Cash and monetary assets:						
Within General Account of the U.S. Treasury	2,850,296	-3,389,316	2,068,167	13,741,307	7,501,695	10,351,990
With other Government officers:						
Special drawing rights:						
Total holdings	31,968	245,288	-8,181	1,949,450	2,162,770	2,194,738
Certificates issued to Federal Reserve Banks	....	....	....	-400,000	-400,000	-400,000
Balance	31,968	245,288	-8,181	1,549,450	1,762,770	1,794,738
Other	245,759	286,433	-1,264,071	2,423,691	2,464,365	2,710,123
With International Monetary Fund	-542,000	-25,241	50,000	565,533	1,082,292	540,292
Total cash and monetary assets	2,586,023	-2,882,837	845,915	18,279,981	12,811,121	15,397,144
Miscellaneous asset accounts	51,508	325,735	858,229	2,669,512	2,943,739	2,995,247
Total asset accounts	2,637,531	-2,557,101	1,704,145	20,949,492	15,754,860	18,392,391
Excess of liabilities (+) or assets (-)	-7,060,195	+3,989,425	+14,508,571	+338,607,046	+349,656,666	+342,596,470
Transactions not applied to current year's surplus or deficit (See Schedule A for details)	8,656	-493,957	-208,057	....	-502,613	-493,957
Total budget financing [Financing of deficit (+) or disposition of surplus (-)]	-7,051,539	+3,495,468	+14,300,514	+338,607,046	+349,154,052	+342,102,513

See footnotes on page 3.

Classification	This Month	Fiscal Year to Date	
		This Year	Prior Year
Excess of liabilities beginning of period:			
Based on composition of unified budget in preceding period	$349,656,772	$338,607,152	$324,098,582
Adjustments during current fiscal year for changes in composition of unified budget:			
Reclassified from deposit fund (liability) account to budget account:			
Transportation Department:			
Federal Highway Administration:			
Advances from state cooperating agencies	-107	-107	-107
Excess of liabilities beginning of period (current basis)	349,656,666	338,607,046	324,098,475
Budget surplus (-) or deficit:			
Based on composition of unified budget in prior fiscal year	-7,051,539	3,495,468	14,300,514
Adjustments during current fiscal year for changes in composition of unified budget	....	....	....
Budget surplus (-) or deficit (Table III)	-7,051,539	3,495,468	14,300,514
Transactions not applied to current year's surplus or deficit:			
Seigniorage	-47,442	-320,707	-399,800
Increment on gold	....	[12] -1,219,103	....
Conversion of interest receipts of government accounts to an accrual basis	....	[10] -323,374	....
Off-budget Federal agencies:			
Export-Import Bank of the United States	144,218	1,236,297	548,060
Postal Service	-299,413	[11] 446,903	....
Rural Electrification and Telephone revolving fund	93,981	571,940	59,797
Federal Financing Bank	100,000	102,000	....
Total--Transactions not applied to current year's surplus or deficit	-8,656	493,957	208,057
Excess of liabilities close of period	342,596,470	342,596,470	338,607,046

TABLE IV--SCHEDULE B--AGENCY SECURITIES, ISSUED UNDER SPECIAL FINANCING AUTHORITIES (In thousands)

Classification	Net Transactions (-) denotes net reduction of liability accounts			Account Balances Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This Month
		This Year	Prior Year	This Year	This Month	
Agency securities, issued under special financing authorities:						
Obligations of the United States, issued by:						
Export-Import Bank	-$2,790	$672,684	$402,401	$2,221,056	$2,896,530	$2,893,740
Obligations Guaranteed by the United States, issued by:						
Defense Department:						
Family Housing Mortgages	-8,053	-94,025	-102,761	1,480,838	1,394,865	1,386,813
Housing and Urban Development Department:						
Federal Housing Administration	-1,984	-3,597	-42,120	411,650	410,038	408,053
Transportation Department:						
Coast Guard:						
Family Housing Mortgages	....	-172	-164	2,628	2,456	2,456
Obligations not guaranteed by the United States, issued by:						
Defense Department:						
Homeowners' Assistance Mortgages	80	576	-1,592	2,711	3,207	3,287
Housing and Urban Development Department:						
Government National Mortgage Association	....	-110,000	-440,000	4,480,000	4,370,000	4,370,000
Treasury Department:						
Federal Farm Mortgage Corporation Liquidation Fund	....	-4	-19	65	61	61
Independent Agencies:						
Federal Home Loan Bank Board:						
Federal Home Loan Bank Board Revolving Fund	....	5,279	-241	4,911	10,190	10,190
Homeowners' Loan Corporation	....	-3	-4	203	200	200
Postal Service	....	....	....	250,000	250,000	250,000
Tennessee Valley Authority	50,059	441,059	400,000	2,255,000	2,646,000	2,696,059
Total, Agency Securities	37,312	911,797	215,501	11,109,063	11,983,547	12,020,859

See footnotes on page 3.

TABLE IV--SCHEDULE C (MEMORANDUM)--AGENCY BORROWING FINANCED THROUGH ISSUES OF PUBLIC DEBT SECURITIES (in thousands)

Classification	Transactions			Account Balances Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This Month
		This Year	Prior Year	This Year	This Month	
Borrowing from the Treasury:						
Agency for International Development	-$28,756	-$46,491	-$42,561	$373,802	$356,067	$327,310
Commodity Credit Corporation	-148,666	-2,256,284	-636,690	10,864,319	8,756,702	8,608,036
Export-Import Bank of the United States	141,777	569,238	144,234	1,887,665	2,315,126	2,456,902
Federal Financing Bank	600,000	602,000	...	...	2,000	602,000
Federal Housing Administration:						
General insurance fund	...	476,000	448,000	831,000	1,307,000	1,307,000
Special risk insurance fund	...	345,000	528,000	810,000	1,155,000	1,155,000
Government National Mortgage Association:						
Management and liquidating functions	-5,100	-5,320	-601,160	80,220	80,000	74,900
Special assistance functions	9,320	86,020	-127,595	2,972,415	3,049,115	3,058,435
Health, Education, and Welfare Department:						
Commissioner of Education, student loan insurance fund	-12,000	-15,000	15,000	15,000	12,000	...
Rural Electrification Administration	200,594	400,694	512,105	6,562,642	6,762,742	6,963,336
Rural Telephone Bank	7,865	49,422	...	...	41,557	49,422
Saint Lawrence Seaway Development Corporation	...	-2,200	-3,500	123,276	121,076	121,076
Secretary of Agriculture, Farmers Home Administration:						
Rural housing insurance fund	125,000	925,000	...	555,718	1,355,718	1,480,718
Direct loan account	...	...	-597,960	...	...	...
Agricultural credit insurance fund	...	...	224,094	676,000	676,000	676,000
Rural development insurance fund	10,000	10,000	378,711	378,711	378,711	388,711
Secretary of Commerce:						
National Oceanic and Atmospheric Administration, Federal ship financing fund	...	-275	275	275	...	...
Secretary of Housing and Urban Development Department:						
College housing loans	...	...	30,000	2,811,000	2,811,000	2,811,000
National flood insurance fund	...	42,833	8,214	11,046	53,879	53,879
Public facility loans	...	20,000	10,000	340,500	360,500	360,500
Urban renewal fund	...	...	...	800,000	800,000	800,000
Secretary of the Interior:						
Bureau of Mines, helium fund	...	...	1,020	251,650	251,650	251,650
Secretary of Transportation:						
Washington Metropolitan Area Transit Authority	...	-4,505	4,505	4,505	...	...
Smithsonian Institution:						
John F. Kennedy Center parking facilities	...	...	...	20,400	20,400	20,400
Tennessee Valley Authority	...	...	...	100,000	100,000	100,000
United States Information Agency	...	...	...	22,114	22,114	22,114
Veterans Administration:						
Veterans direct loan program		...	...	1,730,078	1,730,078	1,730,078
Defense Production Act of 1950, as amended:						
General Services Administration	...	...	...	1,877,500	1,877,500	1,877,500
Secretary of Agriculture		867	3,678	97,740	98,608	98,608
Secretary of the Interior, Defense Minerals Exploration Administration	...	...	...	38,800	38,800	38,800
D.C. Commissioners: Stadium sinking fund, Armory Board, D.C.	416	...	100	832	416	832
Total Borrowing from the Treasury	900,450	1,197,000	298,470	34,237,208	34,533,757	35,434,207
Borrowing from the Federal Financing Bank:						
Postal Service	500,000	500,000	...	...	...	500,000
Total Borrowing from the Federal Financing Bank	500,000	500,000	...	...	...	500,000
Total Agency Borrowing from the Treasury and Federal Financing Bank	1,400,450	1,697,000	298,470	34,237,208	34,533,757	35,934,207
Deduct: Federal Financing Bank borrowing from the Treasury[13]	500,000	500,000	...	...	...	500,000
Total Agency borrowing financed through issues of Public Debt Securities	900,450	1,197,000	298,470	34,237,208	34,533,757	35,434,207

See footnotes on page 3.

TABLE IV--SCHEDULE D--INVESTMENTS OF GOVERNMENT ACCOUNTS IN FEDERAL SECURITIES (In thousands)

Classification	Net Purchases or Sales (-)			Securities Held as Investments Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This Month
		This Year	Prior Year	This Year	This Month	
Federal Funds:						
Agriculture Department:						
Agency securities	....	-$6,000	-$6,000	$53,215	$47,215	$47,215
Commerce Department	....	14,800	9,750	48,111	62,911	62,911
Housing And Urban Development Department:						
Federal Housing Administration:						
Federal housing administration fund:						
Public debt securities	-$491	68,450	40,006	1,138,378	1,207,318	1,206,827
Agency securities	-29	-5,711	-9,029	196,997	191,315	191,286
Government National Mortgage Association:						
Special assistance function fund:						
Agency securities	-1,149	-5,731	-6,839	90,533	85,951	84,802
Management and liquidating functions fund:						
Agency securities	-412	-916	-2,316	48,036	47,532	47,120
Guarantees Of Mortgage-Backed Securities:						
Public debt securities	825	7,876	4,661	8,082	15,133	15,958
Agency securities	....	....	....	....	....	....
Participation sales fund:						
Public debt securities	43,915	191,193	277,167	877,116	1,024,394	1,068,309
Agency securities	-22,215	-7,455	21,650	120,125	134,885	112,670
Housing Management:						
Community disposal operations fund:						
Public debt securities	....	....	-154	....	....	....
Agency securities	....	....	....	388	388	388
Rental housing assistance fund	902	11,001	5,828	8,571	18,670	19,572
New Communities Administration:						
New communities fund	770	3,640	3,511	8,338	11,208	11,978
Federal Insurance Administration:						
National insurance development fund	....	4,800	5,826	80,986	85,786	85,786
Treasury Department	-429,529	-570,156	347,464	2,934,101	2,793,474	2,363,945
Veterans Administration:						
Veterans reopened insurance fund	9,027	31,322	32,787	252,993	275,288	284,315
Veterans special life insurance fund	9,795	37,937	31,610	352,638	380,780	390,575
Servicemen's group life insurance fund	....	....	-11,361	....	....	....
Other independent agencies:						
Emergency Loan Guarantee Board	....	4,755	3,230	4,315	9,070	9,070
Federal Savings and Loan Insurance Corporation:						
Public debt securities	17,216	377,767	258,192	2,906,576	3,267,127	3,284,343
Agency securities	....	....	-1,600	141,950	141,950	141,950
National Credit Union Administration	-620	13,680	10,904	27,089	41,389	40,769
Other	7,675	37,410	34,740	133,220	162,955	170,630
Total public debt securities	-340,515	234,474	1,054,160	8,780,514	9,355,503	9,014,988
Total agency securities	-23,804	-25,812	-4,134	651,243	649,235	625,431
Total Federal funds	-364,319	208,662	1,050,027	9,431,757	10,004,738	9,640,419
Trust Funds:						
Legislative Branch:						
Library of Congress	....	....	-11	....	....	....
United States Tax Court	....	50	48	349	398	398
The Judiciary:						
Judicial Survivors Annuity Fund	148	907	914	8,148	8,907	9,055
Agriculture Department	95	-91	-65	1,033	847	942
Commerce Department	....	5	-40	125	130	130
Defense Department	-60	86	65	1,017	1,163	1,103
Health, Education, and Welfare Department:						
Federal old-age and survivors insurance trust fund:						
Public debt securities	551,224	2,216,641	2,298,046	34,945,623	36,611,040	37,162,264
Agency securities	....	....	....	555,000	555,000	555,000
Federal disability insurance trust fund	220,920	391,359	791,575	7,803,229	7,973,668	8,194,588
Federal hospital insurance trust fund:						
Public debt securities	249,040	3,641,990	1,338,407	4,172,365	7,565,315	7,814,355
Agency securities	....	....	....	50,000	50,000	50,000
Federal supplementary medical insurance trust fund	27,508	531,054	221,556	699,631	1,203,177	1,230,685
Other	....	100	-97	82	182	182

TABLE IV-SCHEDULE D--INVESTMENTS OF GOVERNMENT ACCOUNTS IN FEDERAL SECURITIES--Continued (In thousands)

Classification	Net Purchases or Sales(-)			Securities Held as Investments Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This Month
		This Year	Prior Year	This Year	This Month	
Trust Funds--Continued						
Interior Department	-$80	$1,151	$39	$915	$2,146	$2,0[illegible]
Labor Department:						
Unemployment trust fund	-72,193	1,164,643	1,144,212	10,956,747	12,193,583	12,121,3[illegible]
Other	....	....	-42	31	31	3[illegible]
State Department:						
Foreign service retirement and disability fund	38,213	38,884	5,993	64,562	65,233	103,4[illegible]
Other	....	-90	60	190	100	10[illegible]
Transportation Department:						
Airport and Airway trust fund	95,468	877,839	....	....	782,371	877,8[illegible]
Highway trust fund	11,386	2,049,152	1,093,670	5,550,051	7,587,817	7,599,2[illegible]
Other	....	-13	-10	23	10	1[illegible]
Treasury Department	-4,650	4,450	5,985	34,056	43,156	38,50[illegible]
General Service Administration	-140	607	1,325	2,482	3,228	3,08[illegible]
Veterans Administration:						
Government life insurance fund	8,264	-38,860	-26,895	689,705	642,581	650,84[illegible]
National service life insurance fund:						
Public debt securities	136,576	177,823	272,281	6,427,365	6,468,612	6,605,18[illegible]
Agency securities	....	....	....	310,000	310,000	310,00[illegible]
General Post Fund National Homes	-700	....	....	1,429	2,129	1,42[illegible]
Other independent agencies:						
Civil Service Commission:						
Civil service retirement and disability fund:						
Public debt securities	3,214,114	3,465,344	3,197,590	30,490,779	30,742,009	33,956,12[illegible]
Agency securities	....	....	....	375,000	375,000	375,00[illegible]
Employees health benefits fund	-21,714	57,144	-17,546	188,607	267,465	245,751
Employees life insurance fund	5,541	154,044	151,656	1,242,782	1,391,284	1,396,825
Retired employees health benefits fund	....	-7,300	5,300	36,381	29,081	29,081
Federal Deposit Insurance Corporation	-56,051	224,983	537,323	5,635,829	5,916,863	5,860,812
Railroad Retirement Board:						
Public debt securities	-28,404	-59,778	24,125	4,558,902	4,527,528	4,499,124
Agency securities	....	....	....	50,000	50,000	50,000
Total public debt securities	4,374,505	14,892,123	11,045,464	113,512,435	124,030,052	128,404,557
Total agency securities	....	....	....	1,340,000	1,340,000	1,340,000
Total trust funds	4,374,505	14,892,123	11,045,464	114,852,435	125,370,052	129,744,557
Off-budget Federal agencies:						
Postal Service:						
Public Debt securities	293,820	-310,058	-180,898	1,084,913	481,035	774,855
Agency securities	-5,350	17,775	-99,410	5,000	28,125	22,775
Rural Electrification and Telephone Revolving Fund	200	4,140	6,451	6,969	10,909	11,109
Total public debt securities	294,020	-305,918	-174,447	1,091,882	491,944	785,964
Total agency securities	-5,350	17,775	-99,410	5,000	28,125	22,775
Total Off-budget Federal agencies	288,670	-288,143	-273,857	1,096,882	520,069	808,739
Grand Total	4,298,856	14,812,642	11,821,634	125,381,073	135,894,859	140,193,715
MEMORANDUM						
Investments in securities of privately owned Government-sponsored enterprises:						
Milk market orders assessment fund	....	200	....	....	200	200
Total	....	200	....	....	200	200

Note: Investments are in public debt securities unless otherwise noted.

TABLE V--COMPARATIVE STATEMENT OF BUDGET RECEIPTS AND OUTLAYS BY MONTHS OF CURRENT FISCAL YEAR

(Figures are rounded in millions of dollars and may not add to totals)

Classification	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June	Fiscal Year To Date	Comparable Period Prior F.Y.
RECEIPTS														
Individual income taxes	$8,814	$9,279	$11,707	$9,230	$10,006	$9,134	$14,327	$8,601	$3,219	$14,764	$5,641	$14,029	118,750	103,246
Corporation income taxes	1,350	695	5,247	1,053	652	6,096	1,562	819	5,549	5,463	1,100	9,077	38,664	36,153
Social insurance taxes and contributions:														
Employment taxes and contributions	4,608	7,087	4,989	4,144	5,578	3,761	4,609	7,294	5,287	5,994	7,505	5,037	65,894	54,876
Unemployment insurance	382	1,357	103	217	825	90	245	761	96	552	2,190	88	6,907	6,051
Contributions for other insurance and retirement	346	334	317	351	321	298	378	346	338	351	340	329	4,049	3,614
Excise taxes	1,538	1,434	1,436	1,459	1,563	1,536	1,263	1,315	1,211	1,275	1,391	1,464	16,885	16,260
Estate and gift taxes	398	494	373	454	462	333	455	423	465	371	437	344	5,009	4,917
Customs	276	303	238	291	301	224	304	239	277	286	295	301	3,334	3,188
Miscellaneous	409	308	597	437	501	515	334	429	377	602	343	503	5,355	3,921
Total--receipts this year	18,121	21,291	25,007	17,637	20,209	21,987	23,476	20,226	16,818	29,657	19,243	31,174	264,847	
Total--receipts prior year	*15,210*	*18,102*	*22,394*	*14,633*	*16,746*	*18,976*	*21,132*	*18,172*	*15,878*	*25,870*	*16,576*	*28,536*		*232,225*
OUTLAYS														
Legislative Branch	50	48	43	47	53	59	58	55	77	46	52	37	625	540
The Judiciary	16	17	(**)	14	19	18	16	15	16	34	1	40	205	183
Executive Office of the President	5	4	6	4	7	5	6	6	7	5	10	6	71	49
Funds appropriated to the President:														
International security assistance	27	42	-31	35	177	-138	51	95	64	5	62	810	1,200	1,176
International development assistance	88	146	88	140	103	96	131	101	104	143	92	168	1,398	1,027
Other	113	111	92	108	72	118	149	144	170	114	116	104	1,412	1,529
Agriculture Department:														
Foreign assistance, special export programs and Commodity Credit Corporation	1,872	167	-148	340	340	1	-49	-143	-120	-121	-156	-164	1,819	4,383
Other	454	680	397	458	822	136	1,258	690	802	656	948	704	8,003	5,645
Commerce Department	95	128	123	131	129	103	143	107	115	105	125	154	1,457	1,368
Defense Department:														
Military:														
Department of the Army	1,228	1,952	1,653	1,857	1,900	1,711	1,809	1,703	1,856	1,822	1,915	2,048	21,454	20,185
Department of the Navy	1,482	1,935	1,765	1,897	2,089	1,928	2,142	1,974	2,156	2,044	2,295	2,251	23,958	22,470
Department of Air Force	1,760	2,044	1,963	2,023	1,986	1,865	1,942	1,822	2,146	2,133	2,114	2,122	23,919	23,627
Defense agencies	563	721	646	738	664	615	789	782	497	699	838	688	8,240	6,941
Civil defense	(**)	10	5	7	7	4	8	4	7	6	8	7	75	74
Allowance undistributed	......	......	.....	......	......	......	....	.....	......	....	.....	....	....	....
Total Military	5,033	6,662	6,032	6,523	6,647	6,123	6,690	6,285	6,662	6,703	7,170	7,115	77,646	73,297
Civil	63	144	153	167	172	120	124	108	103	117	166	246	1,682	1,703
Health, Education, and Welfare Department:														
Social and Rehabilitation Service	739	1,163	875	1,773	1,333	966	1,195	880	1,555	1,011	1,516	1,180	14,186	13,403
Federal old-age and survivors insurance trust fund	3,805	3,828	4,024	3,929	3,980	3,889	4,065	3,994	4,051	4,287	5,251	4,395	49,498	43,625
Federal disability insurance trust fund	503	496	520	513	525	464	510	514	549	582	605	597	6,380	5,468
Federal hospital insurance trust fund	573	599	534	657	626	650	698	681	724	731	802	768	8,044	6,842
Federal supplementary medical insurance trust fund	220	255	208	255	251	302	292	281	303	289	316	308	3,279	2,635
Other	1,063	861	1,234	287	748	1,111	1,237	1,512	982	1,516	175	1,609	12,333	10,070

See footnotes on page 3.

TABLE V--COMPARATIVE STATEMENT OF BUDGET RECEIPTS AND OUTLAYS BY MONTHS OF CURRENT FISCAL YEAR--Continued

(Figures are rounded in millions of dollars and may not add to totals)

Classification	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June	Fiscal Year To Date	Comparable Period Prior F. Y.
OUTLAYS--Continued														
Housing and Urban Development Department	$853	$750	$656	$383	$42	$286	$317	$242	$229	$282	$326	$373	$4,739	$3,592
Interior Department	-1,101	167	143	112	148	-249	-918	72	58	-2,014	94	-1,383	-4,872	-2,236
Justice Department	131	172	136	137	132	126	177	149	156	152	166	165	1,797	1,531
Labor Department:														
Unemployment trust fund	365	383	337	379	364	420	648	664	708	662	623	596	6,148	5,354
Other	337	322	165	203	231	194	231	202	238	200	247	251	2,822	3,285
State Department	120	75	66	60	63	77	62	26	46	64	42	32	732	591
Transportation Department:														
Highway trust fund	244	438	418	474	492	357	379	203	240	294	339	610	4,487	4,760
Other	233	315	279	284	277	306	315	258	317	272	320	450	3,627	3,423
Treasury Department:														
Interest on the public debt	2,317	2,340	2,406	2,445	2,403	2,476	2,530	2,396	2,490	2,465	2,514	2,537	29,319	24,167
Interest on refunds, etc.	15	23	15	37	17	13	10	10	32	14	17	23	226	182
General Revenue Sharing	1,495	-3	16	1,495	29	.....	1,532	1	(**)	1,540	1	(**)	6,106	6,636
Other	36	-76	114	-214	117	-119	-11	115	118	152	130	-14	348	-26
Atomic Energy Commission	-108	221	177	190	201	203	171	209	230	235	233	345	2,307	2,393
Environmental Protection Agency	55	88	65	99	108	93	107	90	566	266	167	326	2,030	1,114
General Services Administration	97	3	30	-23	-16	-14	19	-38	-158	-56	-101	-8	-264	468
National Aeronautics and Space Administration	278	262	246	249	246	221	251	231	252	293	278	423	3,228	3,311
Veterans Administration:														
Compensation, pension, and benefit programs	700	779	698	772	899	858	881	879	905	893	875	743	9,883	9,296
Government life insurance fund	9	6	5	7	5	6	7	5	7	7	8	6	78	66
National service life insurance fund	56	56	46	53	42	46	63	45	58	57	54	48	623	519
Other	332	209	218	224	245	231	251	157	222	206	241	221	2,756	2,087
Other independent agencies:														
Civil Service Commission	360	432	481	487	464	479	446	471	500	498	510	564	5,693	4,601
Postal Service	1,373	.....	.....	.....	.....	.....	105	.....	.....	......	.....	220	1,698	1,567
Small Business Administration	121	220	60	97	20	101	20	9	23	19	37	14	742	1,317
Tennessee Valley Authority	21	33	46	39	22	55	164	-156	33	32	31	82	401	367
Other	399	242	610	574	264	315	270	142	369	385	342	473	4,388	3,597
Undistributed intragovernmental transactions:														
Federal employer contributions to retirement fund	-265	-258	-247	-257	-246	-221	-306	-284	-278	-283	-269	-406	-3,319	-2,927
Interest credited to certain accounts	-586	-412	-602	-593	-470	-595	-623	-393	-621	-584	-494	-646	-6,620	-5,452
Total outlays--this year	22,607	22,139	20,736	23,092	22,099	19,686	23,671	21,030	22,905	22,273	23,981	24,123	268,343	
Total Outlays--prior year	*18,502*	*20,689*	*18,448*	*20,057*	*21,234*	*19,648*	*23,665*	*20,203*	*20,784*	*22,234*	*19,995*	*21,069*		*246,528*
Surplus (+) or deficit (-) this year	-4,486	-847	+4,271	-5,455	-1,891	+2,302	-195	-804	-6,086	+7,384	-4,739	+7,052	-3,495	
Surplus (+) or deficit (-) prior year	*-3,291*	*-2,587*	*+3,946*	*-5,425*	*-4,487*	*-673*	*-2,533*	*-2,031*	*-4,905*	*+3,636*	*-3,419*	*+7,466*		*-14,303*

See footnotes on page 3.

TABLE VI--TRUST FUND IMPACT ON BUDGET RESULTS AND INVESTMENT HOLDINGS (In millions) 31

Classification	Current Month			Fiscal Year to Date			Securities Held as Investments Current Fiscal Year		
	Receipts	Outlays	Excess of receipts or outlays(-)	Receipts	Outlays	Excess of receipts or outlays(-)	Beginning of This Year	Beginning of This month	Close of this month
Trust receipts, outlays, and investments held:									
Federal old-age and survivors insurance	$3,370	$3,455	-$85	$47,777	$45,431	$2,347	$35,501	$37,166	$37,717
Federal disability insurance	611	367	244	6,147	5,740	408	7,803	7,974	8,195
Federal hospital insurance	908	554	354	10,556	6,993	3,563	4,222	7,615	7,864
Federal supplementary medical insurance	144	100	44	1,703	1,173	530	700	1,203	1,231
Federal employees retirement	186	-3,521	3,706	2,345	-979	3,325	30,866	31,117	34,331
Federal employees life and health benefits	....	20	-20	....	-212	212	1,468	1,688	1,672
Federal Deposit Insurance Corp	....	-14	14	....	-293	293	5,636	5,917	5,861
Airport and airway	74	66	9	840	493	347	....	782	878
General Revenue Sharing	....	(*)	(*)	6,055	6,106	-51	....	....	....
Highway	482	409	73	6,260	4,162	2,099	5,550	7,588	7,599
Indian tribal funds	....	-22	22	....	-4	4	1	2	2
Military assistance advances	....	48	-48	....	-492	492	....	....	
Railroad retirement	149	135	13	1,414	2,386	-972	4,609	4,578	4,549
Unemployment	88	317	-229	6,907	5,457	1,449	10,957	12,194	12,121
Veterans life insurance	....	-161	161	....	-146	146	7,428	7,423	7,567
All other trust	4	878	-874	34	-274	308	112	123	157
Trust funds receipts and outlays on the basis of Table III and investments held from Table IV--B	6,015	2,630	3,385	90,038	75,540	14,499	114,852	125,370	129,745
Intragov. receipts offset against trust fund outlays	6,457	6,457	....	15,865	15,865	....			
Total trust fund receipts and outlays	12,472	9,087	3,385	105,903	91,405	14,499			
Federal fund receipts and outlays on the basis of Table III	25,159	21,492	3,667	180,864	198,858	-17,994			
Intragov. receipts offset against Federal fund outlays	10	10	....	152	152	....			
Total Federal fund receipts and outlays	25,169	21,502	3,667	181,017	199,011	-17,994			
Total interfund receipts and outlays	-6,467	-6,467	....	-22,072	-22,072	....			
Net budget receipts and outlays	31,174	24,123	7,052	264,847	268,343	-3,495			

See footnotes on page 3.

Note: Interfund receipts and outlays are transactions between Federal funds and trust funds, such as, Federal payments and contributions, Federal employer contributions, and interest and profits on investments in Federal securities. They have no net effect on overall budget receipts and outlays since the receipt side of such transactions is offset against budget outlays. In this table, interfund receipts are shown as an adjustment to arrive at total receipts and outlays of trust funds and Federal funds respectively. Included in total interfund receipts and outlays are $6, 055 million in federal funds transferred to trust funds for general revenue sharing.

TABLE VII--SUMMARY OF RECEIPTS BY SOURCE AND OUTLAYS BY FUNCTION (In thousands)

Source	Total Budget		
	This Month	Fiscal Year To Date	Comparable Period Prior Fiscal Year
NET RECEIPTS			
Individual income taxes	$14,029,036	$118,750,071	$103,245,521
Corporation income taxes	9,077,051	38,664,197	36,152,530
Social Insurance taxes and contributions:			
Employment taxes and contributions	5,037,462	65,893,961	54,876,420
Unemployment insurance	88,207	6,906,711	6,051,483
Contributions for other insurance and retirement	329,368	4,048,681	3,614,046
Excise taxes	1,464,309	16,885,403	16,259,861
Estate and gift taxes	344,229	5,009,320	4,917,069
Customs	301,024	3,334,127	3,187,980
Miscellaneous	503,472	5,355,013	3,920,561
Total	31,174,158	264,847,484	232,225,472
OUTLAYS			
National defense	7,467,959	78,792,890	76,023,290
International affairs and finance	1,050,352	4,175,456	3,132,253
Space research and technology	422,801	3,228,146	3,311,000
Agriculture and rural development	209,845	5,182,770	6,051,111
Natural resources	-835,686	-989,552	559,471
Commerce and transportation	1,562,123	12,549,002	12,505,309
Community development and housing	397,412	5,129,221	4,162,197
Education and manpower	1,263,447	10,574,715	10,822,340
Health	2,067,871	21,501,547	18,393,281
Income security	7,586,997	84,075,160	72,949,571
Veterans benefits and services	1,020,049	13,369,846	12,004,029
Interest	2,313,531	28,101,163	22,835,562
General government	647,841	6,485,062	5,519,134
General Revenue Sharing	-233	6,105,922	6,636,369
Undistributed intragovernmental transactions	-1,051,691	-9,938,397	-8,378,934
Total	24,122,619	268,342,952	246,525,985

For sale by the Superintendent of Documents, U. S. Government Printing Office, Washington, D. C. 20402
Subscription price $41. 75 per year (domestic), $10. 45 per year additional (foreign mailing), includes all issues of daily Treasury statements and the Monthly Statement of Receipts and Outlays of the U. S. Government. No single copies are sold.

GPO 878-069

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

120

FOR RELEASE 6:30 P.M. July 24, 1974

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for $1.8 billion of 52-week Treasury bills to be dated July 30, 1974, and to mature July 29, 1975, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:

High	-	92.207	Equivalent annual rate 7.707%
Low	-	92.012	Equivalent annual rate 7.900%
Average	-	92.077	Equivalent annual rate 7.836% 1/

Tenders at the low price were allotted 35%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted
Boston	$ 22,000,000	$ 16,675,000
New York	1,997,505,000	1,414,445,000
Philadelphia	27,150,000	2,150,000
Cleveland	46,955,000	45,955,000
Richmond	44,455,000	33,945,000
Atlanta	16,385,000	13,035,000
Chicago	156,975,000	77,150,000
St. Louis	38,165,000	27,465,000
Minneapolis	16,235,000	16,235,000
Kansas City	6,330,000	5,680,000
Dallas	21,665,000	6,665,000
San Francisco	172,745,000	140,735,000
TOTALS	$2,566,565,000	$1,800,135,000 2/

1/ This is on a bank discount-basis. The equivalent coupon-issue yield is 8.45%.

2/ Includes $ 72,995,000 noncompetitive tenders accepted at the average price.

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

171

FOR RELEASE AFTER 1:30 P.M., EDT
THURSDAY, JULY 25, 1974

REMARKS BY THOMAS W. WOLFE
DIRECTOR, OFFICE OF DOMESTIC GOLD AND SILVER OPERATIONS
BEFORE THE GOLD CONFERENCE
SPONSORED BY BUSINESS WEEK
PLAZA HOTEL, NEW YORK CITY
THURSDAY, JULY 25, 1974
1:30 P. M., E.D.T.

There has been considerable conjecture over the years about the extent of latent demand for gold in the United States market. Expectations of events following a lifting of ownership restraints range from a substantial surge in buying by the public and much higher gold prices to a minor ripple of demand that might generate a selloff by disappointed speculators elsewhere followed by an actual drop in the gold price. Which of these forecasts is the more accurate will only be known after the event, but there are a number of reasons why a surge in gold demand is unlikely. Among these are:

(1) There is nothing in the American historical past to indicate any great public interest in holding gold. Unlike certain other countries gold was not widely held as a store of wealth in the U. S. when it was freely available prior to 1933. In fact, the Treasury in those days used its bar gold sales as a measure of industrial demand since it assumed they were bought for no other purpose. In our time the Canadians, who are culturally similar to Americans, have shown no

widespread interest in gold buying although it is freely available at the market price. The lifting of ownership restraints for the Japanese in April of last year created only a minor short-run spurt in public buying there which quickly faded. There is no historical reason to suppose that the American reaction would be very different.

(2) Since December 1973 eased restrictions have made gold coins eligible for purchase by Americans in virtually unlimited quantities. In anticipation of strong demand, dealers imported substantial quantities of gold coins in the first few months of this year. However, lack of buyer interest -- despite offering prices as low as 10 percent below the value of the gold content -- has resulted in a sharp cut-back in coin imports since March and even sizable re-exports of coins to better markets abroad.

(3) Holders of small amounts of gold bullion do not, in any practical sense, have a liquid investment. First, there is the risk of a substantial swing in the market price of gold just as with any other commodity. The gold price drop of nearly 30 percent from March to July is a clear example of what can happen. But even apart from the price risk in the major markets there is a substantial gap between the buy-sell prices necessarily quoted by dealers of gold in very small quantities. The experience of buyers of small silver bars is a case in point. In short, there is simply no guarantee of a ready market for the holder of any metal in amounts well under commercial quantities.

(4) The holding of bullion in any quantity would impose a considerable security problem for investors. This would require a continuing cost for adequate storage or safe deposit facilities.

 122

(5) Gold is an investment which yields no current return to the holder. At the present high level of interest rates this sacrifice is a considerable cost factor, particularly over an extended period of time. For example, at 6 percent a savings deposit doubles in value in 12 years and increases by nearly six times over a 30-year period. A 10 percent certificate of deposit would double in value in only 7 years. Consequently, gold faces some tough competition for the investor's dollar and its price would have to rise substantially over the medium term just to keep even with other investments readily available in today's market.

(6) The historical record of gold as a hedge against inflation is poor. During the long period from 1800 through the 1920's world commodity prices showed a substantial net increase while the price of gold was unchanged at the monetary value of $20.67 an ounce. From 1933 until 1970 the general price level as measured by the GNP deflator increased about 3-1/2 times, but during this entire period the current dollar price of gold in the free market showed no increase at all. And, of course, in real terms the price of gold dropped very substantially. In 1970 the purchasing power of an ounce of gold as established in the free market was less than a third of its 1933 value. One would be hard pressed to find any other commodity that would have been as poor an investment over this period. In short, the historical record shows clearly that while gold has been effective as a hedge against deflation it has been almost useless as a hedge against inflation. Over the past 175 years gold has been an effective hedge against inflation only in the single three-year period from 1971 to 1974.

(7) And, of course, anyone contemplating the purchase of gold for speculative reasons would have to take into account the very large stock of gold held by the U. S. Government, about 276 million ounces. The United States gold reserve is several times larger than present annual world gold production and is large enough to meet all of our industrial gold needs for perhaps another generation -- if it were used only for that purpose. Secretary Simon's statement of June 11 to a House Banking and Currency subcommittee endorsing an ending of gold ownership restraints at an appropriate time noted that this action would probably have no adverse effects if the United States sold gold from the Government stocks to meet some or all of the new investment demand.

The key point in assessing any possible market impact following the lifting of ownership restraints in the United States is that gold is a commodity that is traded and priced in a world market. It is world supply and demand that determines the price. It may well be that any increase in demand within the United States might be partially or completely offset by the sale of gold in other markets previously acquired in anticipation of the event.

Another factor that should be taken into account is that there has been a pronounced decline in industrial demand for gold in the United States -- and indeed throughout the world -- particularly in the past year or so in response to the rising price of gold. American industrial users, who constitute the largest sustained demand for gold in the world, made net purchases of 7.3 million ounces of gold in 1972 -- over one-sixth of total world gold production. In 1973 U. S. industrial gold

123

purchases dropped by some 15 percent with most of the decline occurring in the last half of the year. Preliminary figures indicate that an even sharper decline in industrial gold demand is likely in the current year. Other analyses, notably the recent report by Consolidated Gold Fields, Ltd., indicate a similar downward trend in industrial demand throughout the world. From these data we can only conclude that the industrial demand for gold is not inelastic as many had assumed, but tends to respond very sharply to increases in the market price.

But whatever the level of demand for gold when restraints are ended, striking changes in the market itself are certain to occur. As to what these changes will be we can only speculate, but we can be sure that whatever happens, the structure of the gold market and its institutions will ultimately be determined by the needs of industrial users and the wants of the investing and consuming public. In this context there is no particular reason to expect that the ultimate handling of gold in the American marketplace -- how it is bought, sold and traded -- will be very different from that of related commodities such as silver and platinum.

Some of the expected market changes are fairly obvious. Undoubtedly gold futures will at some point be added to the growing list of commodities traded on the major American exchanges. As the new game in town it will probably attract a good deal of investor interest. Currently there is a good deal of interest being shown by entrepreneurs of diverse type and background in the possibility of marketing gold in small quantities, perhaps down to the one-ounce level. If even a small part of this interest is translated into action we can be sure there will be plenty of competition in this field. However, I have some doubt that there will be any sustained demand for any significant volume of gold offered in this form. As noted earlier, Americans have historically shown little interest in commodities -- including gold -- as a store of wealth. The small silver ingot business has not amounted to much even among the less sophisticated buyers. The experience of those who have been persuaded to participate in that game has on the whole not been a happy one.

The level of industrial demand for gold following an end of ownership restraints will be largely governed by the price along with general economic conditions. Purchases of gold for industrial use have been highly responsive to price changes over the past couple of years, and if the gold price should increase further or even remain close to the recent high level I would expect the downward trend in industrial buying to continue. The current level of industrial demand for gold is now perhaps 20 percent below the level that most experts had projected only a year or two ago. Since World War II, commercial demand has been the consistently dominant factor in the world gold market and will continue to be in the future whatever changes are made in regulations affecting the ownership of gold.

Perhaps the most interesting change that will occur as an active viable gold market is developed in the United States is that at long last the analyses of market trends will be by technical experts rather than the free-lance monetary mystics who have dominated this field for too many years. As with other commodities, an intelligent analysis of the current and future gold outlook will depend upon a realistic appraisal of rational factors such as mining reserves, production costs, the level

124

of inventories -- speculative or otherwise -industrial demand, the general economic outlook, etc. The introduction of investment analysis based on statistical evidence and ordinary common sense may be the most significant change of all in the gold market and it will be welcome.

And finally a word or two about the possible structure of the American gold market following an ending of ownership restrictions. How will it compare with the established gold trading centers abroad? As mentioned earlier, the United States has for some years been the largest consumer of gold in the world. American commodity markets are the most technically advanced in the world and have become the focal point for dealing and pricing most of the world traded commodities. It therefore seems likely that the primary trading center for the world gold market will ultimately shift to the United States and this change may indeed be quicker than some would expect. The form and style of the American gold market will no doubt be very different from the traditional trading centers abroad. The major European gold markets developed during a time when the monetary role of gold was pre-eminent. By contrast gold trading in the United States will be mainly within the institutional framework of the established commodity markets and consequently the rules and procedures will reflect this relationship. I expect that this change will, in both direct and subtle ways, affect the public attitude toward gold and will accelerate the transformation of gold from a monetary metal to a useful commodity.

-oo0oo-

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

125

MEMORANDUM FOR THE PRESS July 24, 1974

For your reference, here are remarks of Secretary William E. Simon to the Italian News Media on July 23, 1974.

126

FOLLOWING IS TRANSLATION OF STATEMENT
ISSUED ORALLY TO MEDIA
BY ITALIAN SPOKESMAN FOLLOWING
TREASURY SECRETARY SIMON'S MEETING WITH
GOVERNMENT OF ITALY OFFICIALS
JULY 23, 1974

William E. Simon, U. S. Secretary of the Treasury, met this morning with Italian Treasury Minister Emilio Colombo and Minister of the Budget Antonio Giolitti: Finance Minister Mario Tanassi and Guido Carli, Governor of the Bank of Italy. The conversation was long and cordial.

The talks took place within the framework of a continuing consultative process currently being carried out by American monetary authorities and those of the main European countries. The meeting allowed a thorough review of the main problems linked with the international economic and financial situation, special emphasis was placed on the fight against inflation and on the difficulties encountered by those countries which have recently experienced more pronounced disequilibrium in their balance of payments. In this regard, Minister Colombo gave a detailed account to his American colleague of the measures adopted recently by the Italian Government, and which are at present being debated in the Parliament, to resolve the Italian domestic economic situation and to readjust the foreign trade balance.

The talks also touched on the more general problem of the reform of the International Monetary system.

Secretary Simon took the opportunity to inform Minister Colombo of the results of the meetings which took place during his recent trip to some of the main Arab capitals.

FOLLOWING IS TEXT OF SECRETARY SIMON'S
REPLIES TO MEDIA QUESTIONS
AFTER MEETING WITH
GOVERNMENT OF ITALY OFFICIALS
JULY 23, 1974

"We discussed various problems of the Italian economy and we were brought up-to-date on many of the figures. This was a continuation of the discussion held during my meetings with Governor Carli at the International Monetary Conference near Washington in June. As you know Minister Colombo, unfortunately, was not able to come. When we had scheduled that meeting we had hoped to be able to chat in Washington at that time. Unfortunately it had to be now instead of then. So, it was a wide ranging discussion of their economy and the problems that the world faces with inflation, the measures that each country is taking to deal with it, the subject of oil and oil prices, etc. All of the topics that we all know so well."

QUESTION: Do you think there is any chance that the price of oil will decrease in the future?

ANSWER: I have felt that this world surplus of a million and a half to two million barrels a day is creating pressure on prices and I can see a diminution in the price of oil but certainly it will not be significant to the extent that one could expect the price of oil to be - where it was two years ago.

QUESTION: Excuse me, if you have time for one more question ... well, has the U. S. pledged some form of aid to Italy under the present circumstances?

ANSWER: No, they did not request a loan. We spoke of various means of assistance in this area but we are not authorized to make commitments, as you know, under our congressional process.

Sure.

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

127

FOR IMMEDIATE RELEASE JULY 25,1974

EXTENSION OF TIME FOR COMMENT ON PROPOSED
FOREIGN CURRENCY REPORT FORMS

Treasury today announced that a notice of extension of time for comments on proposed regulations and reporting forms on foreign currency positions of banks and other firms, has been filed for publication in the Federal Register, Monday, July 29.

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 proposed regulations and report forms were published in the Federal Register on June 27, 1974, with provision for a 30-day period for written comment by interested parties. Comments were to have been received by July 29. The notice of extension extends the time for comment to August 12, 1974.

Comments should be submitted in triplicate to the General Counsel, Department of the Treasury, Washington, D. C. 20220. Comments submitted will be available to the public on request unless confidential status for the submission is requested and approved.

WS-73

Department of the TREASURY
OFFICE OF REVENUE SHARING
WASHINGTON, D.C. 20226
NEWS
TELEPHONE 634-5248

128

FOR IMMEDIATE RELEASE

Remarks on the Occasion of the Signing of the
Cooperative State Audit Agreement between
the U.S. Treasury Department and the State of Michigan
in the Office of the Vice President

July 25, 1974

Graham W. Watt
Director, Office of Revenue Sharing

The agreement being signed here today represents another step forward in the Administration's effort to reestablish the Federal-state-local balance of power that was envisioned when America's founding fathers wrote the Constitution of the United States some two hundred years ago.

Through General Revenue Sharing and others of the New Federalism policies, we are reversing the tide of power and authority which has flowed toward Washington for too long.

Now, we are working cooperatively with our States and local governments for the betterment of all. Each level of government again should exercise those duties and carry out those responsibilities which it can best perform.

This agreement between the State of Michigan and the U. S. Treasury Department is an important element in the Office of Revenue Sharing's Cooperative State Audit System, a program through which state governments will audit their own agencies and units of local government for revenue sharing purposes. Revenue sharing law specifically authorizes the Treasury Department to accept such state-conducted reviews as part of the revenue sharing audit and compliance system.

The result of our agreement will be that the State of Michigan will supervise audits of its 1860 local governments and certain state agencies for revenue sharing purposes, using standards established in the Audit Guide we have published.

The Cooperative State Audit System we are developing with the assistance of the State of Michigan and other states will make it possible to audit local governments at the least possible cost to the Federal government and local governments alike. The Federal government will not be required to duplicate an audit system already in place. Local governments will be covered simply and effectively, by extending their regularly conducted audits.

The Office of Revenue Sharing is committed to building a high quality audit and compliance program for 38,000 recipient units of government with maximum efficiency and minimum cost.

Besides the Cooperative State Audit System, we have begun a private audit program with accounting firms that have agreed to include revenue sharing in their periodic audits of local governments.

129

We shall perform our own audits on a random basis, as well, and we shall act promptly on complaints or allegations of noncompliance wherever and whenever they may occur.

Using resources we develop and those already existing, we expect to achieve regular audit coverage of over 90% of revenue sharing funds and most recipient units of government.

We are grateful for the cooperation and assistance that Governor Milliken, the State Treasurer, Auditor General, Budget Director and other Michigan State officials have given us in this important effort which strengthens our Federal system and our nation's foundation.

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

130

July 25, 1974

MEMORANDUM FOR CORRESPONDENTS:

Attached, for your information, is an address by John A. Bushnell, Deputy Assistant Secretary of the Treasury for Developing Nations Finance, to the Inter-American Committee for the Allliance for Progress (CIAP), in Washington, D. C. on Wednesday, July 24, 1974.

CIAP is a part of the Organization of American States (OAS).

oOo

Attachment

WS-72

131

STATEMENT BY MR. JOHN A. BUSHNELL, DEPUTY ASSISTANT SECRETARY OF THE TREASURY FOR DEVELOPING NATIONS FINANCE

JULY 24, 1974

Mr. Chairman, Mr. Secretary-General, members of the Permanent Executive Committee of the Inter-American Economic and Social Council, representatives of the international financial institutions, ladies and gentlemen:

It is indeed a pleasure for me to be with you today for the Fourth Annual Review of the economic policies pursued by the United States. Because of the interdependence of our economies, an interdependence which becomes more evident every year, this annual review is a valuable mechanism for us, individually and collectively, to analyze where we have come from and to assist us in determing what future courses we ought to follow in order to achieve the greatest amount of good for all the peoples of the Western Hemisphere.

We in this part of the globe are also inextricably involved with and impacted by the international economy. If anyone had doubts about these facts, the events of the past year have shaken him into a rude awakening to reality. One need not even mention the energy crisis in this regard. The impact of the temporary disappearance of the anchovies off Peru extends throughout the world and affects every household in the U.S., even though few of the missing anchovies would have been marketed in the U.S. All of us are now keenly aware of changes in the prices and availability of raw materials which come to us from every corner of the globe. Therefore, I hope we can utilize to the fullest this opportunity for hemispheric dialogue to discuss matters of mutual concern. In this session we shall focus on financial matters of common interest.

My prepared statement will concentrate on the changes in the fundamental structure of the international economy, the importance of private capital, and international monetary reform, with emphasis on the various efforts being made to assist those countries most severely affected by higher energy prices.

CHANGED WORLD SCENE

In the time since this group met last year, there have been major changes in the international economy. Virtually every nation is facing double digit inflation, and the short-term prognosis for containing inflation is not good. In the United States price inflation, as expressed by the consumer price index, was almost 9 percent in 1973. One must go back 22 years to find a higher rate of price increase. As you are well aware, price increases for agricultural products, which rose by more than 20 percent, led the way in the early part of 1973 and were followed by substantial increases in energy prices in the last quarter. The price of petroleum products remains several magnitudes higher than this time last year, although world supply now seems to be outpacing world demand.

 132

These dramatic price increases were not unique to the American economy. In 1973 the consumer price index for Latin America in the aggregate rose 35 percent, ranging from 4 percent to several hundred percent in individual countries. The U.S. economy was, therefore, one of those less severely hit by spiralling prices.

The net effect of this past year's changed world scene has been a major change in financial flows as international terms of trade shifted dramatically in favor of minerals producers and farmers. Within the U.S. there was a similar redirectio of real incomes. The energy crisis in particular has resulted in a substantial and continuing transfer of wealth from the oil consuming to the oil producing nations. Oil consuming nations generally face serious balance of payments problems as they reduce available reserves or take on additional debt to pay for oil import bills that have tripled or quadrupled. Some oil consumers were fortunate in that they were coincidentally experiencing substantially increased export earnings from commodities which were in short supply. As new supplies come on to the market, however, and industrial demand slows, commodity prices will begin to ease -- some have already done so -- and there is considerable danger that the economic effects of the oil price rise will spread and multiply.

Meanwhile, the oil exporting nations are experiencing unprecedented export earnings and reserve accumulation and now face the challenge of channeling their huge monetary reserves into profitable activities, so that they may provide a solid income generating base for the future. Even if oil prices fall -- and the international financial problem may prove unmanageable if they do not -- mechanisms must be found to channel these reserves to the countries that need them to finance current account deficits.

On the other hand, the income shift that has occurred may offer unexpected opportunities for promoting world economic growth. The reserves being accumulated by the oil producing nations may be drawn primarily from consumption activities. If these resources can now be directed in large part to investment uses, particularly in the developing countries, our long-term development objectives will be furthered.

MONETARY REFORM

We are thus faced with both challenges and opportunities for creative initiative. Some bold new initiatives have been proposed for mobilizing bilateral or multilateral governmental assistance through the various public lending institutions. The United States Government has supported these efforts and believes that a promising start has been made in dealing with the challenges before us. Despite serious disturbances in the economic and financial context surrounding its negotiations, for example, the Committee of Twenty last month reached positive decisions in a number of areas of critical importance in the present situation, and established the technical and political framework for a cooperative future evolution of the monetary system. Latin American representatives played an important role throughout the Committee's work, and the countries of the area can take pride in their contribution to a program of action that, in addition to setting the basis for future international cooperation, initiated a number of immediate steps that will be of major benefit to both developing and developed nations in the period ahead.

Some of these actions of significant interest are:

- -- Agreement on an interim technique of valuing the SDR. This formula will increase the utility of the SDR during the present period of widespread floating and in that way will enhance the prospects that the SDR will become the central reserve asset in the monetary system -- long a priority objective for the developing countries.
- -- Establishment of guidelines for floating and provisions for improved surveillance, assessment and consultation on the adjustment process. These procedures and guidelines provide needed content to agreed principles and will help to ensure the consistency and fairness of countries' behavior in this highly uncertain and difficult period. They thus provide a basis for confidence that responsibilities for adjustment will be fairly apportioned.

-- The IMF trade declaration, with its provision for prior IMF approval, can help create the needed restraint against escalation of restrictions on trade or other current account transactions for balance of payments purposes, which are potentially so detrimental to developing countries. I am convinced it is in the LDC interest for as many countries as possible -- both developed and developing -- to subscribe to the pledge, and strongly urge the Latin American countries to do so.

-- Establishment of an Interim Committee of the IMF (ultimately to become a Governors' Council) to oversee the implementation of the decisons already made and to assure the continuity of the negotiations.

-- Recommendation to establish a Development Committee to serve as a responsible focal point for comprehensive and effective consideration of development issues and the transfer of resources to developing countries. This decision came in response to an intitiative of the developing countries led in large measure by Latin American constituencies. The U.S. has supported this proposal from the outset. In our view, the Committee should be a continuing body and should have a mandate encompassing a broad range of development issues, including the assistance emanating from national and international agencies. The urgent needs

 134

of the developing countries most seriously affected by recent price increases and payments problems are appropriately a priority issue for this Committee, as was envisioned in the C-20 agreement.

-- Establishment of the IMF oil facility to supplement the private market facilities and supply needed assistance in meeting the impact of the increase in oil import costs. Provided that the resources are made available to the Fund, Latin American countries might have combined access to the oil facility on the order of about $1 billion through 1975. Not all the Latin American countries will need such assistance, and some may require more highly concessionary assistance than the oil facility can provide, but for a number of countries this new innovation can provide a useful supplementary source of financing.

-- In addition, establishment of the proposed IMF Extended Fund Facility, which we expect will be agreed upon shortly, as recommended by the C-20, will provide developing countries with increased access to IMF resources and permit repayment over a period longer than that applicable to regular IMF drawings. This facility will be designed to offer a form of lending which will be particularly useful for countries undergoing major policy shifts and improvements in economic structure that give rise to sustained payments disequilibria.

We recognize that the inability of the C-20 to reach agreement on the question of establishing a link between development assistance and SDR allocations was undoubtedly a disappointment to many -- though we have discovered in our private discussions that many developing country representatives themselves have serious reservations about the link. I want to assure you that the agreement in the C-20 to reconsider the link is viewed seriously by the United States and that we will approach this review with an open mind. Nevertheless I should also caution that our opposition to the link has been based not on any failure to appreciate the needs of the developing countries, but on sincere concerns about the impact of a link on the development of the SDR as the system's central reserve asset and the efficacy of the link as a means of providing resource transfers. We do not know what the result of this reassessment will be. It must take place in the overall context of the discussions in the Fund and the Development Council. We will seek ways to meet our concerns and the needs of the LDCs in a manner which is consistent with the overall objectives for the monetary system and the world economy. We will not confine ourselves to proposals already considered and arguments already debated.

In our view, then, the C-20 can point to some very real accomplishments. In particular, agreement on the Interim Committee of the IMF goes far to ensure that there will be an effective, broadly representative forum to oversee the operation of the monetary system and guide its evolution. This body of high-level officials will be in a position to provide the leadership and policy direction urgently required in this period of great uncertainty. The developing countries, and certainly Latin America, will have strong representation on this Committee and are thus assured of having an equitable voice in international deliberations on those issues which profoundly affect the world economy. The U.S. intends to take the opportunities offered by this new forum to work closely with Latin America as we have done during the C-20 negotiations.

The C-20 agreement on a program of immediate steps has also presented us with an extensive work program which will require further negotiations in the period immediately ahead. The C-20 has asked the IMF Executive Directors to prepare draft amendments on several subjects: establishment of the Governors' Council; legalization of floating; a permanent IMF trade declaration; authorization of a substitution account; gold; an SDR-aid link (in parallel with reconsideration of the link itself); and improvements in the operation of the IMF General Account and the SDR. The Interim Committee is to consider these amendments this fall with a target completion date to coincide with the completion of the current general review of IMF quotas scheduled for February 1975. The U.S. believes certain amendments would be desirable, to bring the Fund's basic structure and rules into conformance with today's economic realities and thus to strengthen its role in international monetary affairs. If a package of amendments broad enough to justify the legislative effort can be agreed upon, we will give it our enthusiastic support. (I ought to make it clear that the Administration does not have final authority on these matters but must obtain Congressional approval.)

At the same time, work on the quota review and the Extended Fund Facility must be completed. The Interim Committee and Executive Board must also begin to implement the agreed guidelines for floating; introduce new procedures for surveillance of the adjustment process (including experimental use of reserve indicators) and of developments in global liquidity; review the operations of the oil facility; and study arrangement for gold.

The success of this ambitious monetary reform program will depend ultimately on the ability of the international community to work together. It will require agreement on issues that can be worked out within the framework of the Committee of Twenty. It will also require bold cooperative initiatives to effect change in financial and trade relations as well as individual efforts to control inflation.

We all need the support and cooperation of the private sector to achieve these changes. The resources for development, whether mobilized via investments or taxes, must ultimately be provided by private individuals. Only private

 13C

capital, moreover, has sufficient flexibility to respond to the kind of volume of funds and rapid market changes we are witnessing today.

PRIVATE CAPITAL

As is well known, my Government strongly believes that open international capital markets are highly desirable to assist developing countries and to facilitate capital flows between developed countries. We have during the past year removed the few legal restraints that remained from the emergency measures introduced before the dollar was devalued. Freedom of capital movement is particularly important to Latin America, where net external resources currently account for some 12-15 percent of investment for the region as a whole, reaching above 40 percent for some countries.

The CIAP report suggests that some of our federal and state regulations may make it unnecessarily difficult for developing countries to gain access to the U.S. capital market, and I know the SEC and other agencies are giving serious consideration to these points. At a recent seminar sponsored by AID, Latin American officials met with representatives of the SEC and the private financial community to educate one another to the procedures and problems involved in attracting private portfolio capital. Such exchanges should be encouraged. I have the impression, however, that such obstacles may not in practice be as great as the CIAP report suggests. Countries with demonstrated creditworthiness have had little difficulty in recent years raising capital in our markets on attractive terms. Several bond issues have indeed been oversubscribed, and some countries have had to introduce measures to turn eager lenders away.

In this regard, it seems to me that CIAP's recommendation for the systematic use of debt rescheduling as a means of providing development assistance is ill advised because of the danger that rescheduling will damage the climate for other financial flows. An additional danger is the spillover effect a rescheduling can have; i.e., the damage to the creditworthiness image of developing countries generally. The ability to attract portfolio investment obviously depends heavily on the lender's confidence that the repayment contract will be honored, and the use of rescheduling as anything but a very exceptional event can only erode that confidence. Moreover, the Congress has made abundantly clear in recent years that it views very negatively any form of "back door" financing. A policy such as CIAP advocates, therefore, would seriously weaken the Administration's ability to gain funding for its budgeted assistance programs.

The CIAP review document again this year urges the establishment of a facility to assist Latin American exports to the United States. I seriously question the need and desirability of such a facility. In the first place, such a facility would provide a subsidy not to the Latin exporter but to the importer in the United States. Second, export

137

credit facilities are generally designed to assist in the movement of capital goods. There are only a few countries in Latin America currently able to take advantage of such a facility, and those countries are probably in a good position to provide such financing, themselves.

Although attitudes toward direct private investment still tend to vary widely in the hemisphere, progress has been made over the past year in settling outstanding disputes. With very few exceptions, investors and host countries have been able to reach amicable and mutually beneficial accommodations of each other's interests. Representatives of private enterprise, both domestic and foreign, home governments and host governments are meeting in a variety of international and regional fora to understand better each other's needs and possibilities and to improve the international flow of capital and technology. We share the CIAP's hope that the working group on transnational enterprises, established by the Washington Meeting of Foreign Ministers, will take full advantage of this period of calm and dialogue to further our understanding of this powerful vehicle for international development and of the inevitable trade-offs that are implied by restrictions placed on their activities. The instability of rules or inconsistency in their application can frequently be more unsettling and costly to both sides than the rules per se. Investors have demonstrated enormous capacity to adapt to different rules of the game, so long as they can trust those rules to be fairly and consistently applied.

The latest Commerce Department data for year-end 1972 show a total of $13.5 billion of U.S. direct investments in Latin America, approximately 14 percent of our total direct investments abroad, and 54 percent of our LDC investments. These investments are increasingly concentrated in the manufacturing sector, which now accounts for 40 percent of the total.

Undoubtedly differences in our respective philosophies and traditions will cause us to evaluate differently the costs and benefits involved to the host country in MNC activities and their regulation, and disputes regarding the fairness of treatment accorded foreign investors may from time to time still arise. Even where philosophical and legal principles differ, however, specific disputes are capable of peaceful settlement. That is the essence of diplomacy. In the Mexico City Meeting of Foreign Ministers, Secretary Kissinger proposed that we explore the possibilities of creating a regional mechanism for facilitating the settlement of investment disputes. Such an accomplishment could enormously enhance the confidence of both investors and governments in their mutual relationship and make an important contribution toward stimulating capital flows within the hemisphere, not only from the U.S. to Latin America but also within Latin America.

138

Some of the suspicions and disputes that arise with regard to foreign investors may be the result of incomplete information regarding the firm's activities and from differences in accounting practices and concept among the tax authorities having jurisdiction over its various branches. The availability of information can be improved, and some disputes at least might be avoided by the conclusion of bilateral tax treaties among the governments of the Americas. This is an area that it might be useful to have our respective tax officials explore.

At present, the private sector accounts for around two-thirds of the capital flowing from the United States to Latin America, and as development proceeds that ratio will probably increase. Nevertheless, we recognize the continued need that many countries will have for concessional financing and for the technical assistance provided by the official lending institutions. For the countries hardest hit by the increased energy costs and world inflation generally, that need will be particularly great.

The United States has completed the payments for its share of the Ordinary Capital for the 1970 replenishment of the IDB, and the Administration is requesting and advocating Congressional approval of the funds necessary for us to complete our outstanding commitment to the Fund for Special Operations (FSO). We also recognize that at current rates of lending the IDB will soon need a capital replenishment, probably beginning in 1976. Additional FSO funds will be needed even sooner. We expect to carry our share of the burden in supporting both the ordinary capital and the FSO needs of the IDB and are looking forward to an exchange of views with other members on the various issues facing the Bank in connection with the proposed replenishment. We anticipate that a greater percentage of the concessional (FSO) funds will be available than in the past to the least developed countries as those countries with the stronger economies withdraw from using FSO funds.

We are encouraged that both the House and the Senate have given authorization for the fourth replenishment of the International Development Association (IDA) with a U.S. contribution of $1.5 billion to IDA over the next several years. We have, however, learned from that experience that we must present the Congress with a fully documented and complete case for such assistance. We shall therefore need to be more conerned than in the past with the operations of the multilateral institutions -- not so much to monitor or influence them as to assure ourselves that we can give the fullest support when replenishment of their fund is necessary.

The new trust fund established by the Government of Venezuela will also make an important contribution to the economic development of her sister republics. The additional

139

funds pleged for concessionary lending are particularly timely and welcome. We also continue to support the ongoing negotiations with the European countries and the Japanese for membership in the IDB, thereby bringing additional resources into the Bank.

A key concept running throughout this statement deals with cooperation. And the spirit of cooperation that was begun in Mexico City several months ago ought to be carried forward from this session to meet head on the issues that confront us all. So far cooperation has been primarily a government to government effort. Let us resolve at this session to broaden the scope of cooperation and to encourage the participation of all members of our respective countries in the effort to make the Western Hemisphere a better place to live in for us all.

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

140

July 26, 1974

MEMORANDUM FOR CORRESPONDENTS:

Attached, for your information, is a transcript of Secretary Simon's press conference in Paris on July 24, 1974.

oOo

141

PRESS CONFERENCE BY
TREASURY SECRETARY WILLIAM E. SIMON
AT THE AMERICAN EMBASSY, PARIS, FRANCE
JULY 24, 1974

SIMON: Good morning, ladies and gentlemen. I thought that perhaps I might give you a very brief overview and some background on my trip and some of the experiences we had and, then, I know that you all are interested in asking questions, so I'll make my comments relatively brief and then focus on your specific areas of interest.

My trip to the Middle East is consistent with the diplomatic effort of President Nixon and Secretary Kissinger in that war and peace and economic development are interrelated. Without peace there can be no economic progress; and obviously with economic progress and trade, and commerce, the possibility of a renewal of hostilities is minimized.

As you probably know, about six weeks ago Prince Fahd of Saudi Arabia came to Washington with a high level delegation to commence conversations, discussions with our government working toward a long-term agreement on economic cooperation and development. It was decided at that time that we would have working groups in Saudi Arabia in the middle of July to focus on the specifics there for industrialization and a diversified economy. We decided to discuss diversification as they are looking beyond the day of their oil primacy, when they wish to have a diversified economy. The areas that we decided to discuss other than industrialization and diversification are science, technology, manpower, labor, agriculture, as well as the ways of financing in which the U.S. government can assist them in investing their vast resources over the next few years.

When the President and Secretary Kissinger toured the Middle East, the President promised assistance -- as I said a few minutes ago, that the Secretary of the Treasury would not be far behind, that I would visit Egypt and commence the discussion on the financial restructuring of their system consistent with the economic goals. Obviously, that required a good deal more information than we had at the outset of our trip.

The same would apply to Israel which we visited second. My visit to Kuwait was prompted by the fact that no one of Cabinet level had visited Kuwait. Secretary Kissinger had said he wished to visit there while he was doing his shuttle diplomacy. But, unfortunately, other events precluded him from doing that, so the President thought it would be a good idea that Secretary Kissinger and I have a broad discussion with the Kuwaitis; and we did indeed discuss in a very frank, and I might add, friendly fashion that those of you in the press who made that trip with us can attest to. And we did not shirk at giving our opinions and disagreeing with each other on the subject of oil prices and production and the outlook of supply and demand, as we see it from our vantage point in the U.S.

At the time my trip was planned, I decided that it would be a good idea for me to make a stop on the way home and meet my counterparts, the finance ministers of the European countries. I had talked briefly to Minister Fourcade after the Ministerial Meeting in Washington in June. As you remember, he was unable to attend due to the formation of the government, the budget and the economic plan, etc. and we decided at that time that we would get together at the earliest possible date; the same with Minister Colombo, in Rome, who was unable to attend the C-20 meeting. So my discussion with the finance ministers is truly just a follow-on and consistent with the finance ministers in Europe and the Secretary of the Treasury of the United States getting together periodically to discuss the problems that face one another domestically, how we indeed intend to solve these problems for which measures are being taken, and also recognizing the interdependence of all the nations in the world in attempting to devise plans that will meet some of these major problems so that we have the ability to act rather than to react to the situation that occurs. And these discussions will continue this evening when I arrive in the U.K. and meet with Chancellor of the Exchequer Healy.

Now briefly these are the background topics that we discussed. I'll be delighted to respond to any questions on specifics that you may have.

Let me add at the outset that the purpose of this trip was discussions on long-term economic cooperation and development, the ways in which the U.S. can be of assistance in these areas, not to negotiate a long-term supply of oil or negotiate lower prices for oil, although I said at the outset when one discusses financial problems today in this world and energy in general and oil in particular, it is impossible not to also discuss the prices and I discussed them freely and frankly as I always have.

142

QUESTION: Mr. Secretary, as oil prices were discussed, is there a possibility that oil prices will go down?

SIMON: The world response to this very high price of oil has resulted in a surplus of between 1-1/2 to 2 million barrels a day, with storage capacity worldwide well full. This is putting some pressure on the price of oil and should result in a diminishing price in the months ahead. And I hasten to add my expectations did not include a significant decline in the price of oil. By significant, I mean we will not go back, in my judgment, to the prices of two years ago, but certainly there will be a reduction in prices.

As you know, Minister Yamani made the announcement that they will auction oil early in August and one might suggest that the prices in this auction would probably be below the present posted -- 93 percent of posted price where we had recent negotiations. This oil will be for the fourth quarter of this year.

It is also our belief that lower oil prices are clearly in the interest of, not only the oil consumers, but the oil producers as well. If one looks at the maximization of profitability of this burning asset, then to give them the assurance of a long-term market is in their best interest. And our study on the elasticity of demand, as has been demonstrated already, as well as the supply responses to the supply elasticity which suggest that at these levels, it is counterproductive to them to be charging what they are for oil today; and we have made this point with some detail.

When we were in Kuwait, having made this point with Finance and Petroleum Minister Atiqi and their other senior cabinent members, I cannot say that they agreed with me. One might say this was one of the areas where we had a disagreement and let me hasten to add that sometimes disagreement is described in writing as having been acrimonious and this session was far from that. We had a very healthy, warm discussion on all of these areas because you must understand, while we have areas of disagreement, we had many, many more areas of agreement. They requested, and we have complied because we had our petroleum and economic expert working in Saudi Arabia on the working group, and he is going to Kuwait on July 27th to discuss our detailed econometric studies that have been done on the maximization of profitability of this commodity as far as the producer nations are concerned, because, let's face it, in the final analysis everyone really operates in their own economic self-interest. Our studies show that it would be an economic self-interest to see a lower price of oil to give them the assurance of this longer-term market, and to avoid, I might add, the possibility of other countries in the world putting into place uneconomic alternate sources of energy, higher sources of energy, which would need to be protected, looking ahead in the future and thereby removing a portion of this market from them.

QUESTION: I, too, have a question to ask you. First of all, you said that the question of reducing prices to maximize profits was one of the areas in which you disagreed with the Kuwaitis, but you are sending out a team to Kuwait to show them some of your studies.

SIMON: Yes, they asked us to come and explain the economics behind our conclusions and they were very interested in seeing our studies. So, our team is there. I am loosing track of the days, having been in so many places in such a short period of time. On July 27th, which was probably yesterday.

QUESTION: The question I wanted to ask is whether you expect that you'll be able to convince them to come around to your point of view; and the second part of that question is you said that you had more areas of agreement with them than disagreement. Could you tell us in what sort of areas the agreements were?

SIMON: In response to your first question, I have absolutely no idea whether I or we will be able to convince them that our agruments are sound over the longer run, because people can have honest differences of opinion on very complex subjects such as this.

When one talks about areas of agreement with a country that has a desire to industrialize in specific areas and there is a need to invest its funds for the interim period or only on a continuing basis, obviously these two major areas took quite a bit of of our discussions. The Kuwaitis wish to utilize this natural resource in their country to build the downstream activity in the energy area: fertilizers, petro-chemical plants, tankers, etc. We can give them assistance, in all of these areas, just as we can with our expertise, private sector, industrial sector, for all the countries in the Middle East.

(143)

In the area of finance, investments, United States capital markets, its equity markets are the most highly developed, sophisticated and liquid in the world, and also offer the opportunity for the greatest diversification for an investor. They told us some of their great investment plans, and some of their ideas. We spoke of the special issues of U.S. Treasury securities that today, as you probably are aware, we have some 26 billion outstanding, upward of 20 billion owned by the Federal Republic of Germany. We explained the advantages of investing in special issue securities to them. And by advantages let me hasten to dispell one notion that every once in while appears not only in newspapers, but also appears on the lips of some of our Congressmen back home, that we are offering these people any special interest rate or inflation proofing or devaluation proofing or gold backing, because that is not true. The securities that we are offering, and I made specific proposals, are no different interest-rate-wise than the securities than are offered to our institutions, other governments in the world, and our United States citizens. They do offer the advantage of giving an investor, who has a large amount of money to invest, the ability to call the Treasury Department directly and invest these funds in specific maturities and we can pare these maturities to match whatever his priority, whatever his cash flows are, recognizing when he will need these funds. This avoids, this large investor, the necessity of going in the open market with the attendant disruption that a large amount of money flowing in a very particular area creates. An illustration is, when a buyer with a billion or two billion dollars goes into a market that cannot handle large-size interest, rates decline and prices rise; conversely, when he wishes to sell, the opposite occurs, and he is penalized on the sale of this security. Dealing directly on a goverment-to-government basis avoids this problem. He also is given the advantage of recognizing that priorities do change in a country and their economy as they do begin to do the things that they desire to do, that their needs will change and, having bought a longer day security, if before maturity they wish to sell this, they have the ability to place these with the U.S. Treasury on a given term of notice. However, they are penalized on the interest rate when they place these with the Treasury, if it is before maturity and they are given the yield depending on how long they held the asset of that sale note for twenty years, using that as an illustration.

There is one thing I worked up about financing that I would like to add. I've never shared the pessimism that has been printed so often in recent days, about this problem of the instability in the world financial markets due to the sudden movements of funds in the world. We must understand that the producing countries are very conservative and very, and I emphasize, responsible investors. And when one looks on the internal needs of these countries and I will urge you all to go over there and even though the short visit that we had in several of these countries could not give us the total picture that we will have in a short period of time, when one looks on the internal needs as far as their social desires as well as their industrialization and diversification desires in the years ahead, this is going to take a substantial amount of funds.

I read a short article in the Herald Tribune on the OECD paper that was published this morning that I had not had an opportunity to read yet. But from what I did read, this substantiates that indeed there will be several of these producer countries that could look ten years from now and perhaps be facing a deficit on several of the projections made by the OECD. But that was, as I said, what I read in the paper and I look forward to reading this OECD report.

Secondarily, capital markets in the world today and we have capital markets in the U.S. of the total size of upwards of two trillion dollars. And the Eurodollar market is moving up an area of 200 billion dollars. This leads up to a commercial banking system which obviously could handle substantial funds. I am not suggesting that everything is going to be rosy, but I will suggest that there is not going to be the dark clouds that some have suggested. There could, of course, be strains created at particular times which, I have a great deal of confidence, that cooperation of the producer and the consumer nations and the wisdom of people desiring, because you must recognize that a healthy world economy and a healthy, stable, liquid world financial market is in the best interest of both the producers and the consumers.

QUESTION: Mr. Secretary, what could you tell us about your two conversations with Minister Fourcade with particular emphasis on what was discussed about the problem of inflation both in the U.S. and in France, about the Common Market and the monetary situation?

SIMON: As I said, this was my first meeting with Minister Fourcade since he became the Finance Minister due

144

to his inability to come to the Ministers meeting in Washington in June. We discussed our common fight against inflation and the measures which are not only taken in our countries but the other industrialized countries in the world as well. We discussed our responsibilities to monitor conditions in the international financial markets, here again recognizing the possibilities that strains may occur. These discussions are more than necessary to make sure that we have the ability to act rather than to react to the problems as they occur. We discussed our concerns for the less developed and most seriously affected nations of the world due to the high price of oil and means that have been designed and agreed upon in the International Monetary Fund to deal with this. We discussed the international monetary reform and the progress that was made in our meeting in June and future conversations that will be held.

And importantly, we want to make sure that this will be a continuing dialogue not only between Monsieur Fourcade and I but to make sure we are in constant communication on the telephone or in person, to make sure that there is a constant exchange of ideas.

It is obvious that the number one problem that is facing the world today is inflation. The U.S., as in France and Germany, is dedicated in its fight against this insidious enemy. You are all aware of programs that have been put into place in Europe, and our President will be making a speech on Thursday night -- tomorrow night -- in San Clemente on our economic measures and the fiscal measures we intend to take to reduce demand and to begin to increase the supply and productivity and capacity that our country needs. We have seen for years policies not only in the U.S. but worldwide, that promoted and encouraged consumption and penalized savings and investments. As a result, the demands in our country, indeed worldwide, exceed the capacity to produce and meet this demand and the result is predictable. So we must simultaneously dampen these demands while we are increasing productive capacity so that we can have prosperity at reasonable rates for all the people of our country and of the world.

QUESTION: I have a four-part question...

SIMON: Give me one at a time. I am getting tired at the end of my trip.

QUESTION: You said there are 26 billion in U.S. Treasury secutiries and Germany has 20 billion. Who has the rest?

SIMON: Japan is the next holder and there is a smaller amount held by quite a few nations in the world.

QUESTION: When talking about the alternate sources of energy, wouldn't their development be contrary to the long-term interest of the consumers?

SIMON: Looking purely at it from the consumer's side, which we cannot obviously because this is a two-way street, it is clearly in the best interest to have a reasonable price for this critical commodity, critical to every economy in the world as evidenced by what happens to the economy of the world as a result of the embargo. That is not to suggest that oil should be priced, as I said before, as of two years ago. Oil should be priced just as other commodities are priced, like soybeans or wheat, and are subject to the supply-demand pressures that are created in every market.

This high price of oil presently when one talks about alternate sources, and it is our judgment, and necessarily it must be primarily because it takes exhaustive studies. The long-term supply price in the U.S. is approximately $7. Our judgment that oil-shale and coal, and the secondary and tertiary recovery, some of the most hostile climates in the world can produce oil in the first generation of experience in the oil-shale area. At this level, obviously, experience suggests that it would be lower and one only need look at the synthetic rubber experience and see how we have reduced the price of synthetic rubber and increased the quality, I may add, to where synthetic rubber today is of better quality and cheaper than the natural rubber. This is, of course, part of the study that we did when we were investigating the operation of a cartel. But there are other sources of energy that would at a higher level of 9, 10, 11 dollars a barrel, and looking at the way countries must behave when substantial investments are made in particular to bring on these higher sources. They must be protected in the future through import quotas or license fees which, from the producer's point of view, removes the market for them.

They have desires, as they do, to industrialize and diversify. They need the assurance, or should have that assurance, of a long-term market in order to sell their commodities. A country with 50, 60 or 100 years of reserves in oil cannot be just looking at the next decade as far as the marketing of this product, because realizing the dream of industrialization and diversification is going to take a good deal longer than that.

145

Give me the first part of your question, I forgot what you asked there. Maybe the translator could translate when I leave because I can't check on it anyway.

QUESTION: Did you make commitments with the oil producers as to their investments?

SIMON: No. I gave them a proposal on what might be invested, but it is up to the investor to make the decision as to a size of the investment he wishes to make and the maturity schedule he wishes to invest in, there again depending on what priorities he has. We do not have a firm commitment; we made a definitive proposal and we would expect to hear from them in the near future.

QUESTION: The French government has plans to aid French commercial banks. What are the U.S. government plans in respect to American commercial banks?

SIMON: That would be a question that should properly be aimed at our Federal Reserve System whose function is the lender of last resort for our American institutions. I think there is some action as far as the Franklin National Bank is concerned. They indeed do insist on a collateralized basis. Institutions that have difficulties as far as liquidity is concerned and there is a difference, you know, between liquidity and solvancy, but I think that the recent experiences in the exchange rates problems by the two banks on the other side of the Atlantic has demonstrated or renewed need to make sure that regulations in surveillance of these institutions is strengthened as important or more important than than, that the management of these institutions must make sure to the best of their ability that they are not taking these outside risks on the voluble market.

QUESTION: Did Mr. Fourcade indicate what measures France intends to take?

SIMON: No, he did not.

QUESTION: With Mr. Fourcade did you specifically discuss the future price of gold?

SIMON: We talked in the broad area of international monetary reform and the International Monetary Fund's arrangements on the subject of gold was preliminary in nature and just an exchange of views not relative to any of the specifics or recommendations which might be taken or made by specific countries. Now, the price of gold, we have already agreed, the G-10 as you know, that countries will be able to use their gold as collateral for loans at a market price and this will assist some nations who are having difficulties, such as Italy right now, as well as it would have been a special fund that was created.

QUESTION: That, apparently, is just an interim arrangement, is it not?

SIMON: Well, it may save specific problem that we face right now. I don't know what you mean by interim. It was agreed by the G-10 that the country would be allowed to use gold as collateral for loans and so as far as we in the United States are concerned, this is in place and people are free to do so as long as they wish.

QUESTION: Mr. Secretary, what arrangements have been made to aid the oil producing countries in their development plans?

SIMON: Well, one thing they don't need is aid in the traditional sense. We left a working group behind in Saudi Arabia. My Assistant Secretary of the Treasury, Gerry Parsky, is working there on the specifics of industrialization and development, and this is important. It is not important in the spectacular sense of the newspaper people who would like to have some instant news. The long-term growth of this area can be assured by all the countries in the world lending their particular expertise.

How can the United States mobilize our private sector and educate it to the investment benefits of hard goods they need for import in these countries, our expertise in the government and our manpower and labor which is critically short in Saudi Arabia, the expertise in economic and financial areas that we have in the U.S. government as well as the private sectors, the statistical base that is required in order to have any economy function properly? We can assist them in establishing this statistical base. Tax treaties between our countries would avoid double taxation and thereby give incentive to investors to go into these countries. There are many areas and each country with their different desires can be assisted by the government and by private industries as well, with the government showing the very visible presence and desire which gives the incentive to bring in foreign investment.

QUESTION: Did you suggest to them specific areas of investment?

SIMON: No, I did not go there as someone suggested with the long laundry list of the U.S. investment in equities or industries because this is not the function of the Secretary of the Treasury.

QUESTION: Did you say what were the specific proposals that you presented over there?

SIMON: Here, again, that is what the group is working on now. Ways, just the way I answered the last question, ways to mobilize the private sector in the U.S. and educate it as to the attractiveness of the investment there, the statistical base, the team of tax experts, the financial and economic expertise, the manpower and the labor, or agricultural experts focusing primarily on desert agriculture. Research and development, you know they have today no problem with energy with their obvious vast resources. But solar energy is an obvious area for development in Saudi Arabia. That is one thing in the whole of the Mid East.

I was delighted to see it was raining here today because I have not seen any in a long time. One realizes he misses that perhaps, but there is a broad menu to be discussed that covers just every single area. Some of it can be provided by the U.S. government, others can be provided by other sectors. But the U.S. government can remove a great deal of impediment that encourages investments.

Thank you.

o0o

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

147

FOR IMMEDIATE RELEASE July 30,1974

MEMO TO CORRESPONDENTS:

The attached final regulations have been issued by the Office of Economic Stabilization in compliance with U.S. District Court order of June 14, 1974, and have been forwarded to the Federal Register.

Inquiries should be directed to Director Andrew Munroe, 202-254-3275 or his deputy, Henry Perritt, 202-254-8610.

Attachment

144

TITLE 6 - ECONOMIC STABILIZATION

CHAPTER I - COST OF LIVING COUNCIL

PART 102 - PUBLIC ACCESS TO RECORDS

CLC-2 and CLC-22 Public Disclosure Amendments

On January 11, 1974, the Temporary Emergency Court of Appeals in the case of Consumers Union of United States v. Cost of Living Council, 491 F. 2d 1396 (1974), held that the Cost of Living Council's regulations governing disclosure of CLC quarterly reports unlawfully defined as proprietary certain information which under §205(b)(3) of the Economic Stabilization Act could not be defined as proprietary. A petition for rehearing submitted by the Council to TECA was denied on February 5, 1974, and a petition to the Supreme Court for a writ of certiorari filed by The Business Roundtable (which had joined in the suit as defendant-intervenor) was denied on May 13, 1974. Thereupon the case was remanded to the U.S. District Court for the District of Columbia for further disposition, and on June 14, 1974, Civil Action 1426-73, that court ordered the issuance of new regulations to conform with the TECA decision. The Council was ordered to issue final regulations by July 24, 1974.

Accordingly, on June 24, 1974, the Cost of Living Council issued for public comment a notice of proposed amendment to the Phase IV public disclosure regulations applicable to CLC-2 and CLC-22 quarterly reports. The Office of Economic Stabilization (OES), as successor to the Council, has reviewed the comments received and has prepared the present final amendments.

Many requests for further time to provide comment were received. Since only 10 comments were received by the closing date specified in the preamble to the proposed amendments (i.e., July 8), the OES decided to consider all comments received through July 12, 1974. A total of 38 written submissions were received by that date. In view of the court-ordered deadline of July 24 for promulgation of the final regulations, the OES could not further extend the time for submitting comments as requested by some firms. All comments received by July 12 were taken into account in promulgating the final version of the amendments, and the final amendments reflect some of the changes suggested in these comments.

In order to explain the changes which have been adopted and to discuss those which have not, the OES has listed below the significant questions or issues which were commented on and has indicated in each case the extent to which the OES has revised the proposed version of the present amendments.

1. Authority.

Several firms raised the preliminary objection that, notwithstanding the court order of June 14, 1974, requiring the OES "to issue new regulations, to be applied retroactively," neither the Cost of Living Council, after April 30, 1974, nor the Office of Economic Stabilization as the successor agency had any authority to issue any regulations whatsoever in view of the expiration of the Economic Stabilization Act. This position was based primarily on the language of the first clause of §218 of the Act. Section 218 reads as follows:

> "The authority to issue and enforce orders and regulations under this title expires at midnight April 30, 1974, but such expiration shall not affect any action or pending proceedings, civil or criminal, not finally determined on such date, nor any action or proceeding based upon any act committed prior to May 1, 1974."

For the reasons given below, it is the opinion of the OES that no authority survives under §218 to issue regulations or orders which would impose or reimpose any mandatory wage or price controls applicable to post-April 30 wage or price behavior. However, by virtue of the saving clause of §218, authority to issue regulations and orders survives after April 30 with respect to matters relating to acts committed prior to May 1, 1974.

The purpose of §218 is to terminate wage and price controls on April 30 without at the same time cutting off authority after April 30 to decide, determine or otherwise dispose of "actions" and "proceedings" which were either pending at the date of termination of controls or which might arise thereafter based on an act or acts committed before the termination of controls. This continuing authority applies to litigation and other compliance activities relating to acts committed prior to May 1, 1974, in violation of the rules of the Economic Stabilization Program. It also extends to other matters. Thus, OES Order No. 1, issued under authority of Executive Order 11788 and Treasury Department Order 233, delegates to various section heads within the OES such authority as, for example, the authority to make decisions and issue orders with respect to requests for exceptions and with respect to requests for reconsideration of adverse actions; to decide appeals from adverse determinations by the IRS; to issue legal opinions and interpretations of the regulations, decisions and orders issued under the Economic Stabilization Regulations and of the laws relating thereto; to issue notices of probable violation and remedial orders; and to conduct hearings and request information with respect to these and other functions with respect to which authority continues.

/ 50

Because it has explicit continuing authority to dispose of pending business, including the business of interpreting, enforcing, penalizing infringement of, and granting exceptions from the regulations which applied and continue to apply to acts committed prior to May 1, 1974, the OES retains continuing authority to issue amendments to regulations (whether substantive or procedural) which continue to apply or relate to acts committed prior to May 1, 1974, if necessary to cure some defect or omission in those regulations. This is consistent with the position the Cost of Living Council took with respect to its post-April 30 authority when on May 3, 1974, it issued amendments to Subpart H of the Phase IV price regulations and to the instructions to the Form CLC-22 in order to provide rules governing the submission of the final quarterly report under the program.

In the present instance, "acts committed prior to May 1, 1974," refers to pricing behavior as reflected in the quarterly reports concerned which cover periods prior to that date. The present amendments, which are designed to cure what have been judicially determined to be defects in the public disclosure regulations applicable to those reports, concern only the extent to which the public shall have access to those reports. To dispose of this issue and to make appropriate disclosure are among the "actions" based on acts committed prior to termination of the controls program which §218 of the Act continues to authorize.

In addition, the present amendments relate directly to and implement obligations imposed on all federal agencies by the Freedom of Information Act -- obligations which unquestionably survive expiration of the Economic Stabilization Act. Under this view of the case, authority to issue the present regulations is available to the OES pursuant to 5 U.S.C. 552, quite apart from authority derived from the saving clause of §218 of the Economic Stabilization Act.

2. Applicability.

a. General Applicability.

Several firms expressed concern that the proposed amendments appeared to present the public disclosure requirements as though they applied to all quarterly reports submitted. The confusion evidently arose from the fact that the proposed amendments applied to only two sections of Subpart F of Part 102 of the Phase IV regulations (§§102.55 and 102.56) leaving the scope section of Subpart F (§102.51) unchanged and therefore unrepublished in the proposed amendments. Section 102.51 continues unchanged (except as otherwise provided herein) and sets forth all of the technical restrictions limiting application of the disclosure requirements pertaining to CLC forms. These requirements are limited to CLC quarterly reports submitted pursuant to §130.21(b) or §150.161 by firms with $250 million or more of annual sales or revenues which charged a price for a product line which exceeded by more than 1.5% the price lawfully in effect for that

157

product line on January 10, 1973, or on the date 12 months preceding the end of the quarterly reporting period, whichever is later. The firm itself identifies applicability of public disclosure by submitting extra copies of reports specifically marked and prepared for disclosure purposes (see §102.54).

b. Applicability in Phase IV.

The question was raised as to why the requirement to disclose certain CLC quarterly reports was extended by the Phase IV regulations to Phase IV reports (CLC-22s) as well as Phase III reports (CLC-2s), inasmuch as the disclosure requirement as set forth in §205 of the Economic Stabilization Act, as amended, relates only to "the reporting requirements under section 130.21(b) of the regulations of the Cost of Living Council in effect on January 11, 1973 . . .."

In the petition filed by the Cost of Living Council with the Temporary Emergency Court of Appeals requesting a rehearing with respect to TECA's decision in Consumers Union of United States v. Cost of Living Council, the Council expanded on the argument, previously mentioned in the case, that the public disclosure required by §205 of the Act during Phase III was not required with respect to Phase IV reports. The petition for rehearing was denied, as mentioned above. In addition, the district court's order of June 14, 1974, required, in accordance with the specific guidance of the appeals court, that the "information or data required on lines 7 through 18, line 24 (column C), lines 27 through 33, and lines 35 through 39 of the Council's form CLC-22 and the analogous lines of form CLC-2" be defined in the new regulations as non-proprietary. For these reasons, the OES believes it may not now revise the Phase IV public disclosure regulations to restrict application of the requirements for public disclosure of quarterly reports to Phase III reports only.

c. Applicability to the Health, Food, and Construction Industries.

Section 205 of the Act applies the public disclosure requirements to any firm "subject to the reporting requirements under §130.21(b) . . . in effect on January 11, 1973. . ." Section 130.21(b) is found in Subpart C of the Phase III regulations, and the provision which governs the scope of Subpart C (§130.20) states that Subpart C did "not apply to price adjustments in the food industry or in the health services industry, to rate increases by public utilities, or to pay adjustments affecting employees of firms in the food industry, the health services industry, or the construction industry." It did not apply to the sectors mentioned because in all those sectors (except public utilities) mandatory controls continued to apply and §130.21(b) provided for quarterly reporting only in the so-called "voluntary" sector. A firm meeting the requirements of a food firm reported in Phase III pursuant to §130.52 or §130.54 and a provider of health services reported in Phase III pursuant to §130.61.

152

The Cost of Living Council did not, therefore, apply its reports disclosure regulations in Phase III to reports submitted by food firms or providers of health services. This is demonstrated by the fact that §102.50, effective June 14, 1973, limited application of the reports disclosure regulations to firms subject to the quarterly reporting requirements of §130.21(b), and by the fact that those regulations provided no guidance as to the proprietary or non-proprietary nature of the information on the forms used by providers of health services (Form S-52 and S-53) as was provided in the case of the CLC-2. The fact that the CLC-2 was used for reporting purposes by food firms in Phase III as well as by firms in the "voluntary" sector generally does not alter the fact that the food reporting requirement was imposed by §130.52 or §130.54, not by §130.21(b).

In Phase IV, the reference in the reports disclosure regulations to the quarterly reporting requirements of §130.21(b) was replaced by a reference to §§150.1(c) and 150.161. Section 150.1(c) provided that unfiled reports required under Phase III still had to be filed with the Council in Phase IV. Section 150.161, found in Subpart H, contained the Phase IV quarterly reporting requirement of general applicability. In Phase IV, providers of health services did not report pursuant to §150.161

but reported pursuant to Subparts O and R. Similarly, food manufacturers reported pursuant to Subpart Q and food wholesalers/ retailers pursuant to Subpart K. To this extent, therefore, it is clear that neither the reports disclosure requirements of Phase III nor those of Phase IV apply to the health or food industry.

Food service organizations, on the other hand, did report pursuant to §150.161 in Phase IV. In order that the Phase IV reports disclosure regulations be consistent with those of Phase III, §102.51 is amended to provide that the reports disclosure regulations apply in Phase IV only to those categories of firms to which they applied in Phase III under §130.21(b). Food service organizations (if any) which filed CLC-22s for public disclosure purposes should advise OES immediately. OES cannot assume responsibility for cleansing its reports disclosure files of reports unneccessarily submitted and will not delay disclosure to await clarification by food service organizations.

Under the Phase IV rules governing food manufacturers, a firm which both derived less than 20% of its annual sales or revenues from food manufacturing and less than $50 million of annual sales or revenues from food manufacturing activities could elect to price with respect to those activities either in accordance with Subpart E (general manufacturing) or Subpart Q (food manufacturing). Such a firm was classified as a non-food or general manufacturing firm because its food manufacturing activities were minimal. It reported, therefore, pursuant to §150.161.

If such a firm elected to price with respect to its food manufacturing activities in accordance with Subpart E, it was not required to file the Schedule F (the form applicable to food manufacturing activities). However, if it chose the other option available to it, the firm was required to file a schedule F along with its CLC-22 filed pursuant to §150.161. For this reason, the proprietary/non-proprietary breakdown of Schedule F data which is provided in §102.56(d) is needed but it applies only to those essentially non-food firms (if any) which use the Schedule F for food manufacturing activities and which are required to disclose their quarterly reports.

With respect to the construction industry, it seems clear that the above-quoted statement in §130.20 as to the non-applicability of Subpart C of the Phase III rules to "pay adjustments affecting employees of firms in . . . the construction industry" meant that the quarterly reporting requirements of §130.21(b) applied at the start of Phase III to price adjustments in the construction industry.

On June 13, 1973, separate reporting requirements for Phase III applicable to construction firms were placed in effect under §130.73, as part of the re-imposition of mandatory price controls in the construction industry which occurred at that time. Under §130.73, the requirement to report was made an annual requirement, as opposed to the quarterly reporting requirement found in §130.21, and that reporting requirement was imposed on all firms with annual sales or revenues of $50 million or more from construction operations, unlike the level of $250 million or more of annual sales or revenues which applied to firms subject to §130.21(b). The reports submitted under Subpart H of Part 130 were not subject, therefore, to the reports disclosure regulations of the Council. The reports disclosure requirement was also not imposed on construction firms in Phase IV since the reporting requirement continued to be limited to the submission of annual reports and that requirement was imposed by a special reporting section (§150.457) rather than the general reporting section (§150.161) of the Phase IV rules.

On the other hand, to the limited extent that construction firms submitted CLC-2 quarterly reports under the Phase III rules as in effect prior to the change to annual reporting, the reports disclosure requirements apply.

154

d. <u>Applicability to Privately-Held Firms.</u>

A number of firms commented that the proposed regulations should be revised to provide that the reports disclosure regulations do not apply to privately-held firms which are not required to file reports with the Securities and Exchange Commission. This suggestion was based on the view that the requirement imposed by §205 of the Economic Stabilization Act to disclose CLC reports presupposed that the firms concerned had to file with the SEC. Under this view, the change wrought by paragraph (b)(3) of §205 was to require public disclosure, on a product line basis, of the same information already reported in more consolidated form to the SEC.

The Internal Revenue Service and the Cost of Living Council both interpreted §205 to apply to all firms, whether publicly or privately held, and none of the public disclosure regulations under the Economic Stabilization Program have ever made any exception with respect to CLC forms submitted by privately-held firms.

Section 205(b)(1) of the Economic Stabilization Act of 1970, as amended, states that "<u>any</u> business enterprise subject to the reporting requirements" of the Economic Stabilization Program "shall make public any reports so required" which covers a period during which prices were increased by a certain amount. No exceptions are stated.

Section 205 further states the terms and conditions under which certain information on the CLC quarterly reports may be defined as proprietary and therefore withheld from public disclosure. Paragraph (b)(3) of §205 provides that information or data may not be defined as proprietary if it "cannot currently be excluded from <u>public annual reports</u> to the Securities and Exchange Commission pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 by a business enterprise exclusively engaged in the manufacture or sale of a substantial product . . . . [emphasis added]."

The purpose of paragraph (b)(3) is to provide guidance to the Economic Stabilization Program as to what must be disclosed in any event. It does not alter the applicability of the public disclosure requirement to all firms subject to quarterly reporting, as provided in paragraph (b)(1) of §205. Paragraph (b)(3) appears to mean that if the information cannot be excluded from SEC "public

155

annual reports" generally it cannot be excluded from the public disclosure requirements applicable to all CLC quarterly reports. Therefore the public disclosure requirements should apply regardless of whether the particular firm concerned was required to file a particular report with the SEC.

In addition, this view of the language of §205 is in accord with the general purpose of §205, as amended, which was essentially to provide a public check on the extent of compliance by firms in the "voluntary" sector as defined in Phase III. It is totally irrelevant to this purpose whether a firm was publicly owned or privately held.

Finally, the OES position is consistent with the general tenor of the decision in Consumers Union of the United States v. Cost of Living Council, previously mentioned. Although that decision did not touch directly upon the present issue, the principle laid down by that decision was that data on CLC forms was not to be withheld from public disclosure on the basis of technical distinctions unless clearly required by §205. It is not appropriate to carve out a new area of exclusion from public disclosure, subsequent to the judicial determination in this matter and contrary to the position previously taken by the Economic Stabilization Program. OES has therefore not provided any exception in these amendments with respect to firms which do not report to the SEC.

3. Procedures.

a. Revision of Reports.

Some firms asked that they be given an opportunity, in view of the broadened disclosure requirements, to refile public disclosure reports already submitted in order to delete certain material or otherwise to revise their submissions. Some firms suggested that they may have submitted information that was not actually required by the CLC form, either by design (to aid review of the form by the Council) or through inadvertence. Other firms, stating that they would have aggregated their product lines in a somewhat different manner had they known of the greater degree of public disclosure which eventually would be required, asked for an opportunity to refile now using a higher level of aggregation for their product lines.

The level of aggregation for product line purposes was not a matter of choice in Phase IV (except that a firm could choose to report on a product-by-product basis instead of a product-line basis). The definition of "product line" in Phase IV always required

156

that the level of aggregation used reflect the firm's "customary pricing unit (e.g., cost or profit center)." In fact, the "customary pricing unit" requirement was adopted in Phase III in connection with the CLC-2 and was re-adopted for Phase IV. It was the customary organization of cost or profit centers within the firm, therefore, which always determined the firm's product lines from the time the CLC reports disclosure requirement was first promulgated in June 1973. Consequently there is no basis for the suggestion that in Phase IV firms were permitted freely to select or change the level of product-line aggregation on the CLC-22.

To permit firms now to refile using a different product-line aggregation or otherwise to revise quarterly reports previously submitted for disclosure purposes would open the door to widespread evasion of the public disclosure requirements since such revision would be motivated by a desire to avoid disclosure of information to the extent possible. Such revision, if permitted, might also unsettle much of the Phase IV compliance program since compliance with the price regulations was tested largely upon the basis of the quarterly reports as submitted. Finally, to allow revision of previously-submitted reports would result in an intolerable additional administrative burden.

For these reasons, the reports disclosure amendments do not authorize the submission of revised reports for public disclosure purposes.

b. Return of Proprietary Information.

Because of concern about the possibility of administrative error on the part of the OES in disclosing portions of quarterly reports not required to be disclosed, it was proposed by some firms that all proprietary information be returned to a firm if the firm requests it. Federal law prohibits and authorizes penalties for the destruction or removal of documents and records received by an agency pursuant to law (18 U.S.C. 2071, 44 U.S.C. 3105). Reports submitted under the Economic Stabilization Program will not be returned to submitting firms.

c. Materials to be Disclosed; Filing Extra Copies.

As mentioned in the preamble to the proposed regulations, the effect of the judicial determination in this matter is to require full disclosure of the entire unaltered CLC-2 or CLC-22 proper as originally submitted. However, for the reasons stated in that preamble, the supporting schedules (C, F, R, and/or T) can still be disclosed in their altered form (in the form previously submitted for disclosure purposes in accordance with the Phase IV regulations prior to these amendments). It was proposed, therefore, that the simplest procedure would be to disclose (1) a copy of the

(5)

entire altered report (CLC-2 or CLC-22 with attachments and schedules) as previously submitted for disclosure purposes in accordance with pre-existing regulations, plus (2) a copy of the original CLC-2 or CLC-22 proper, in unaltered form.

In comments received it was suggested that firms be permitted to submit for disclosure purposes copies of the unaltered CLC-2 or CLC-22 proper, as originally submitted, as an aid in avoiding administrative error. This would permit the OES to make full public disclosure without opening the file containing the original or proprietary copy of the quarterly report to make a copy of the form. The OES believes this is a useful proposal and invites all firms to do this if they wish to do so. Extra copies of the CLC-2 or CLC-22 proper (i.e., the form itself with no attachments) may be filed, but they must be accompanied by a certification as to the authenticity of the copies signed by an authorized individual as defined in the CLC-2 and CLC-22 instructions. However, the OES will not delay disclosure procedures to await receipt of copies of CLC-2s or CLC-22s to be supplied by firms.

The OES hereby confirms its intention to disclose, in accordance with these amendments, the following materials: (1) the entire "disclosure" copy of the CLC-2 or CLC-22 report (i.e., the form with schedules and other attachments as specially prepared and previously submitted for disclosure purposes in accordance with the reports disclosure regulations as in effect prior to these amendments); plus (2) a copy of the unaltered version of the CLC-2 or CLC-22 proper (i.e., the form itself, as originally submitted for reporting purposes, without any supporting schedules or attachments).

d. Notification of Disclosure Request.

The OES received comments requesting that advance notice of disclosure requests be given to firms, to provide an opportunity for firms to be heard and to review submitted disclosure reports before disclosure is made, or to file suit against the OES to prevent disclosure. The OES believes these procedures are not required and are administratively unfeasible.

However, the OES plans to provide notification by mail to each firm whose quarterly report is the subject of a request for public disclosure. This will be done the first time disclosure is made with respect to a particular report.

e. Method of Disclosure.

The OES shares the concern expressed by many firms that proprietary information may be inadvertently disclosed. The OES has established internal procedures designed to avoid such error and to assure orderly processing of disclosure requests. As part of this effort, the OES plans, at least initially, to process requests for disclosure of quarterly reports by mail only. Written requests for disclosure may be submitted in person or by mail, but disclosure will be made by mail only.

158

Requests for public disclosure of CLC-2 or CLC-22 reports must be clearly labeled as such on the envelope and must specify both the firm and the quarter concerned. The reports disclosure regulations have been amended to establish fees for copies of reports made available. Billings will be included with reports when mailed by OES.

In consideration of the foregoing, Subpart F of Part 102 of Title 6 of the Code of Federal Regulations is amended as set forth below, effective July 24, 1974.

(Economic Stabilization Act of 1970, as amended, Pub.L. 92-210, 85 Stat. 743; Pub.L. 93-28, 87 Stat. 27; E.O. 11788, 39 FR 22113; Treasury Department Order No. 233, 39 FR 24501.)

Issued in Washington, D.C., July 24, 1974.

Andrew T. H. Munroe

Andrew T. H. Munroe
Director
Office of Economic Stabilization
Department of the Treasury

1. Section 102.51 is amended to read as follows:

§102.51 Purpose and scope.

(a) The purpose of this subpart is to define, pursuant to section 205(b)(3) of the Economic Stabilization Act of 1970, as amended, what information or data contained in quarterly reports submitted to the Cost of Living Council or Office of Economic Stabilization pursuant to §130.21(b) or §150.161 of this title is proprietary in nature and therefore excludable from public disclosure and, conversely, what information or data contained in those quarterly reports is nonproprietary in nature and therefore available to the public.

(b) This subpart applies to:

(1) A business enterprise which --

(i) Has annual sales or revenues of $250 million or more;

(ii) Is subject to the quarterly reporting requirements of §130.21(b) or the quarterly reporting requirements of both §130.21(b) and §150.161 of this title; and

(iii) Charges a price for a substantial product which exceeds by more than 1.5 percent the price lawfully in effect for that product on January 10, 1973, or on the date 12 months preceding the end of the quarterly reporting period, whichever is

159

later; and

(2) A Council form submitted pursuant to the quarterly reporting requirement of §130.21(b) or §150.161 of this title, and any schedule or supporting information or document attached thereto in accordance with the instructions to the form.

2. Section 102.54 is amended by adding at the end thereof a new paragraph (e) to read as follows:

§102.54 Disclosure procedure

* * * * *

(e) Notwithstanding the provisions of §102.31, there will be a fee for making quarterly reports available pursuant to this subpart as follows: for each report, (1) $1.00 to cover cost of search and handling, plus (2) 10 cents per page to cover cost of reproduction.

3. Section 102.55(a) is amended to read as follows:

§102.55 Form CLC-2 data.

(a) <u>Form CLC-2 Proper</u>.

(1) Part I (Identification Information).

The information called for in Part I (and in the spaces provided above Part I) serves to identify or describe the firm, the type of filing, the reporting or fiscal periods in question, and the total sales or revenues of the firm for the last fiscal year. All of the information required, other than the annual sales or revenues of the firm, is nonproprietary data because it does not include either trade data or general financial data other than SEC data, and is generally available to the public elsewhere. The annual sales or revenues of the firm (line 5) is also nonproprietary because it has been judicially determined to be SEC data.

(2) Parts II and III (Profit Margin Calculations).

All information called for in Parts II and III has been judicially determined to be nonproprietary.

(3) Parts IV and V (Other Information).

Parts IV and V call for names, titles, addresses and similar nonfinancial information, including signature and date. Everything required in these parts is nonproprietary data because it does not include either trade data or general financial data other than SEC data, and is generally available to the public elsewhere.

(4) Part VI (Price/Cost Information).

The information required at the top of the page -- the name of the firm, the reporting period dates and the cumulative period dates -- is nonproprietary data because it does not include either trade data or general financial data other than SEC data, and is generally available to the public elsewhere.

160

All of the information required in Columns (a) and (b) on lines 1 through 19 and on any continuation schedules is nonproprietary data because only the names of product lines or service lines and related Standard Industrial Classification Codes are required. These are neither trade data nor general financial data other than SEC data and are generally available to the public elsewhere.

The general financial data required in Columns (c) and (h), lines 1 through 19 (and any continuation schedule) concerns sales by product or service line. Because the CLC definition of "sales" for these columns excludes sales from public utilities activities, farming, exempt items, health service activities, custom products and food operations, the Column (c) or (h) sales entry does not coincide entirely with the equivalent information on the SEC Form 10-K prepared as though the firm were a single-product-line firm. However, the data in Columns (c) and (h) has been judicially determined to be sufficiently similar to SEC data to be considered nonproprietary data.

The data required in Columns (c) and (h), lines 20 through 26,except line 23, has been judicially determined to be nonproprietary data. The entries required on line 23, columns (c) and (h) (Sales of or from Foreign Operations), were not judicially determined to disclose nonproprietary data and were previously determined by the Council to be proprietary items. However, because lines 20 through 25 add, and the total is provided on line 26 (nonproprietary), the effect of the judicial determination with respect to this section is to render the data required on line 23 nonproprietary. The Council therefore deems the information required on line 23 to be nonproprietary data.

Columns (d), (e), (g) and (i) all call for price data. All information required is, therefore, nonproprietary data.

The data required in Column (f) is a percentage figure representing "cost justification" for each product or service line entered in lines 1-19 and on any continuation schedule for which a price increase is indicated in Column (e). The general financial data required in Column (f), line 22, is the cost justification supporting the weighted average price increase for the combined product or service lines. These are calculations unique to the Form CLC-2 and find no counterpart on the SEC Form 10-K. However, in order to fulfill the general purpose of §205 of the Economic Stabilization Act of 1970, as amended, and in exercise of the authority granted thereunder, the Council defines the data required in Column (f), lines 1-19, inclusive, line 22, and on any continuation schedule, as nonproprietary CLC data.

*   *   *   *   *

161

4. Section 102.56 is amended in paragraphs (a) and (e)(6) to read as follows:

§102.56 Form CLC-22 data.

(a) Form CLC-22 Proper.

(1) Part I (Identification data).

The information called for in Part I serves to identify or describe the firm, the type of filing, the reporting or fiscal periods in question, and the total sales or revenues of the firm for the last fiscal year. All of the information required,other than the annual sales or revenues of the firm, is nonproprietary data because it does not include either trade data or general financial data other than SEC data, and is generally available to the public elsewhere. The annual sales or revenues of the firm (item 7) is nonproprietary because it has been judicially determined to be SEC data.

(2) Parts II and III (Profit Margin Calculations).

All information called for in Parts II and III has been judicially determined to be nonproprietary.

(3) Parts IV and V (Additional Information).

Parts IV and V call for names, titles, addresses, and similar non-financial information, including signature and date. Everything required in these parts is nonproprietary data because it does not include either trade data or general financial data other than SEC data, and is generally available to the public elsewhere.

(4) Part VI (Price/Cost Information).

The information required in items 22 and 23 -- the name of the firm, and the reporting period dates -- is nonproprietary data because it does not include either trade data or general financial data other than SEC data, and is generally available to the public elsewhere.

All of the information required in Columns (a) and (b) for item 24 and on any continuation schedule is nonproprietary data because only the names of product lines or service lines and related Standard Industrial Classification Codes are required. These are neither trade data nor general financial data other than SEC data, and are generally available to the public elsewhere.

The general financial data required in Column (c), item 24 (and any continuation schedule) concerns sales by product line or service line. Because the CLC definition of "sales" for this column excludes sales from public utility operations, foreign operations, insurance operations, agricultural products, and, where required, construction operations, the Column (c) sales entry does not coincide entirely with the equivalent information on the SEC Form 10-K prepared as though the firm were a single-product-line firm. However, the data in Column (c), item 24 has been judicially determined to be sufficiently similar to SEC data to be considered nonproprietary data.

162

The data required in Column (c), lines 25 through 39, except line 34, has been judicially determined to be nonproprietary data. The entry required on line 34 ("Foreign Operations") was not judicially determined to disclose nonproprietary data and was previously determined by the Council to be a proprietary item. However, because lines 26 through 38 add, and the total is provided in line 39 (nonproprietary), the effect of the judicial determination with respect to this section is to render the data required on line 34 nonproprietary. The Council therefore deems the information required on line 23 to be nonproprietary data.

Column (d) is used only for prenotification purposes and is not filled out when the CLC-22 is used as a quarterly report. Columns (e) and (g) both call for price data. All information required is, therefore, nonproprietary data.

The data required in Column (f) is a percentage figure representing "cost justification" for each product line or service line entered in item 24 and on any continuation schedule for which a price increase is indicated in Column (e). These are calculations unique to the Form CLC-22 and find no counterpart on the SEC Form 10-K. However, in order to fulfill the general purpose of §205 of the Economic Stabilization Act of

1970, as amended, and in exercise of the authority granted thereunder, the Council defines the data required in Column (f), item 24, and on any continuation schedule, as nonproprietary CLC data.

*　　*　　*　　*　　*

(e) Schedule R (Reconciliation of Forms 10-K, 10-Q or other Financial Statements to Form CLC-22).

*　　*　　*　　*　　*

(6) Lines 12 (Net sales) and 13 (Operating income) are already defined in Parts II and III of the Form CLC-22 as nonproprietary data.

*　　*　　*　　*　　*

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

163

FOR RELEASE 6:30 P.M. July 29, 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 August 1, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing October 31, 1974		26-week bills maturing January 30, 1975	
	Price	Equivalent Annual Rate	Price	Equivalent Annual Rate
High	98.079	7.600%	96.031 a/	7.851%
Low	98.032	7.785%	95.888	8.134%
Average	98.054	7.698% 1/	95.928	8.055% 1/

a/ Excepting 1 tender of $20,000

Tenders at the low price for the 13-week bills were allotted 87%.
Tenders at the low price for the 26-week bills were allotted 12%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 40,860,000	$ 30,860,000	$ 23,035,000	$ 13,035,000
New York	3,165,875,000	2,163,485,000	2,287,640,000	1,411,440,000
Philadelphia	27,635,000	25,650,000	14,170,000	14,170,000
Cleveland	82,805,000	50,295,000	52,315,000	52,315,000
Richmond	45,500,000	29,000,000	29,990,000	25,740,000
Atlanta	37,590,000	35,045,000	20,730,000	20,730,000
Chicago	274,765,000	120,430,000	221,475,000	186,000,000
St. Louis	37,310,000	23,310,000	29,115,000	20,115,000
Minneapolis	16,270,000	14,010,000	9,300,000	9,300,000
Kansas City	27,555,000	27,555,000	25,910,000	25,410,000
Dallas	34,940,000	24,940,000	24,815,000	19,815,000
San Francisco	162,590,000	55,595,000	145,040,000	102,040,000
TOTALS	$3,953,695,000	$2,600,175,000 b/	$2,883,535,000	$1,900,110,000 c/

b/ Includes $ 400,800,000 noncompetitive tenders accepted at average price.
c/ Includes $ 235,885,000 noncompetitive tenders accepted at average price.
1/ These rates are on a bank-discount basis. The equivalent coupon-issue yields are 7.96% for the 13-week bills, and 8.51% for the 26-week bills.

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

164

FOR IMMEDIATE RELEASE July 30, 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 August 8, 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 May 9, 1974, and to mature November 7, 1974 (CUSIP No. 912793 UX2), originally issued in the amount of $1,801,315,000 (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 August 8, 1974, and to mature February 6, 1975 (CUSIP No. 912793 VU7).

The bills will be issued for cash and in exchange for Treasury bills maturing August 8, 1974, outstanding in the amount of $4,303,015,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,566,520,000. 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 in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value) and in book-entry form to designated bidders.

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Monday, August 5, 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 August 8, 1974, in cash or other immediately available funds or in a like face amount of Treasury bills maturing August 8, 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 SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

145

July 20, 1974

Dear Mr. Witteveen:

Thank you for your letter of June 27 in which members of the Fund are invited to subscribe to the Declaration "concerning trade and other current account measures for balance of payments purposes" which was proposed by the ad hoc Committee of the Board of Governors of the International Monetary Fund on Reform of the International Monetary System and Related Issues.

Subscription to that Declaration by all members of the Fund will be an important step in assuring a cooperative solution to the present problems of the world economy. By avoiding the introduction or intensification of trade or other current account restrictions for balance of payments purposes, members of the Fund will assure a more equitable adjustment to the burdens imposed by recent economic developments. Consequently, the Declaration has our full support.

In my capacity as a Governor of the Fund, I accordingly subscribe to the Declaration on behalf of the United States.

With best regards,

Sincerely yours,

William E. Simon

William E. Simon

Mr. H. Johannes Witteveen
Managing Director
International Monetary Fund
Washington, D.C. 20431

1CL

DECLARATION

A. A member of the Fund that subscribes to this Declaration represents thereby that, in addition to observing its obligations with respect to payments restrictions under the Articles of Agreement of the Fund, it will not on its own discretionary authority introduce or intensify trade or other current account measures for balance of payments purposes that are subject to the jurisdiction of the GATT, or recommend them to its legislature, without a prior finding by the Fund that there is balance of payments justification for trade or other current account measures.

B. A member that subscribes to this Declaration will notify the Fund as far in advance as possible of its intention to impose such measures. If circumstances preclude the Fund from making the finding referred to in A above promptly after such notification, the member may nevertheless impose such measures, but will withdraw the measures, within such a period as may be fixed by the Fund in consultation with the member concerned, if the Fund finds that there is no balance of payments justification for trade or other current account measures.

C. In arriving at the findings referred to above, the Executive Directors are requested to take into account the special circumstances of developing countries.

D. In connection with this Declaration arrangements will be made for continuing close coordination between the Fund and the GATT.

E. This Declaration shall become effective among subscribing members when members having 65 per cent of the total voting power of members of the Fund have accepted it, and shall expire two years from the date on which it becomes effective unless it is renewed.

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

167

MEMORANDUM TO THE PRESS July 31, 1974

For your reference, attached is the press conference held by Secretary Simon in London on July 25. The transcription is from a tape recording.

168

SECRETARY OF TREASURY WILLIAM SIMON

Press Conference

London

U. S. DEPARTMENT OF THE TREASURY

SECRETARY OF THE TREASURY WILLIAM SIMON: ...official part of a very hectic trip, and I guess we will have made 14 stops in the 16 days we will have been away, many of them, obviously, one-night stands.

To give you some broad background, and just to be very brief because we do have to go and catch a plane. The purpose for my trip was to seek economic cooperation and development, primarily in the Mideast. This is consistent with our diplomatic efforts, the efforts of the President and Secretary Kissinger, on an ongoing basis, because obviously the issues of war and peace and economic development are interrelated. Without peace, we cannot have economic progress and economic development. And with progress in this area, the possibility of a renewal of hostilities is obviously minimized.

Now the background on this ttrip -- as you all are well-aware, Prince Fahd came to Washington six weeks ago with a high-level delegation, working toward a long-term agreement with our country in economic cooperation and development, primarily in the areas of industrialization and development, because they are looking beyond their day of oil primacy -- science and technology, manpower and labor, financial investments.

The President, on his recent trip to the Mideast, promised the countries that the Secretary of the Treasury would not be far behind, which turned out to be all too true, to discuss the many topics of restructuring the financial system in Egypt and working with them on the liberalization of their economy, and many ways in which the United States Government could be of assistance to them.

At the time my trip was scheduled, due to the fact that Mr. Furcaud (?) in France, in particular, could not make the ministers meeting at the C-20 in Washington in June, I thought it would be a good idea to stop in at the European centers because discussions between the European finance ministers and the United States Secretary of the Treasury on a frequent

109

and informal basis has become a very useful tradition, and we intend to continue to have these conversations on a regular basis, obviously discussing the many problems that confront us in the economic and financial world today.

Now with that broad background, and very brief, as I promised, I would be delighted to respond to any of your particular questions.

MAN: Could I ask that when you ask your question you identify yourself and your organization.

SECRETARY SIMON: Yes, sir.

Q: Terry Robards of the New York Times. Apparently you met with the press yesterday in Paris and pretty elaborately explained what happened up until that point. Could you give us some indication of what's happened here today, whom you met with, whether or not any decisions were made, and just sort of wrap up for us...

SECRETARY SIMON: You read everything that I said. I presume you got those...

ROBARDS: Not everything.

SECRETARY SIMON: ...texts of the press conferences that I gave. That's why I necessarily kept this short, because a lot of it would have been repetition, and I think J.P. Smith has all of the full con - the text of my press conferences and the questions and answers.

Today was a continuation of the same conversations that I had with Chancellor Schmidt and Finance Minister Oppel (?) in Germany and Mr. Colombo and Mr. Carli in Rome, and, of course, Mr. Furcaud in Paris.

I had dinner last night with Dennis Healey, and then as a sidelight we had a very interesting session in my first visit to the House of Commons, and I guess we came upon a very unusual debate there last night, which I found very fascinating.

And then today, this morning I had breakfast with Harold Lever. I then met with Governor Richardson, then with the American bankers, the Executive Council of the American Bankers Association, and then a three-hour session with Dennis Healey.

Now the topics of our conversation with - here in London, as well as in all the other centers -- with my finance ministers was the number one problem that basically face every country in this world today, and that's inflation, and what indeed we're doing about it individually and what we can do about it collectively.

We talked about the international monetary field and steps toward further reform, and monitoring the international financial markets. There has been some concern expressed on the Eurodollar market. And also the problem of reflows. And, needless to say, the subject of oil prices and supply and investment of the petrodollars is aways a subject of conversation.

So these -- these broad areas, as well as the plight of the lesser-developed countries of the world and how the most seriously affected of these nations have found that the oil prices are truly unmanageable for their economies.

Does that answer it, Terry?

ROBARDS: Did you reach any conclusions on the decisions that you'd like to...

SECRETARY SIMON: Well, it really isn't a meeting designed to arrive at conclusions. We had long discussions about various mechanisms that should be studied to potentially implement -- in order to give us the ability to act about the problems, rather than -- unfortunately, sometimes we're put in the position where we're reacting instead of acting. And if we can have these frequent conversations together, we can more -- we can better -- we're better able to try and identify the problems and define them before they become major problems, and attempt to deal with them.

ROBARDS: You mentioned monitoring of international financial markets. Did you discuss any specific strains on these markets at the moment?

SECRETARY SIMON: No, I must admit, as I've said in my last two sessions, that I have not been the pessimist that some others have in the financial markets of the world being able to handle the flow of investment from the producer nations. And I think that the market is demonstrating that it can handle it. And we discussed this with the Arab nations as well because it's clearly in the best interest of the producer nations to have a healthy, viable, liquid capital market throughout the world, as well as a healthy economy.

Q: Jim Flanagan, [Inaudible] Magazine. I've picked up some indications of thinking among the Arabs that recycling these petrodollars to Europe will be impossible because they can't find countries in Europe that are credit-worthy borrowers, and that the only place they can put the dollars back in is in the Middle East.

SECRETARY SIMON: The only place they can put the dollars back in is in the Middle East?

178

FLANAGAN: ...[inaudible]...come back in as investments in industry in the Middle East...

SECRETARY SIMON: Well, I have some trouble...

FLANAGAN: [Inaudible]

SECRETARY SIMON: I have some trouble with your opening statement on the reflow through the economies that are not healthy. There are economies that are suffering some problems today. And, of course, Italy is an example of that, and we have special mechanisms that are designed to solve the problems of a particular country that's in a period of financial stress.

Italy, first of all, is sovling its problems, the fundamental portion of its problems, by acting on the causes of the problems with the fiscal medicine that they've put into place, that is, the Witteveen special fund in the International Monetary Fund. The IMF -- the swap lines that various troubles have.

FLANAGAN: ...at all interested in this?

SECRETARY SIMON: Pardon me?

FLANAGAN: Did you find that the Arab money men were at all interested in this?

SECRETARY SIMON: I find the Arabs are extremely responsible people and aware of their responsibilities. And one can see -- let's take Kuwait, for instance, who recently enlarged their fund to aid lesser-developed countries to \$3.3 billion, and emphasized in the expansion of this fund to that amount that it would be for all of the lesser-developed nations of the world.

The Khartoum Agreement, which Libya and Saudi Arabia have assisted Egypt with their problems during the closure of the Suez Canal. And Saudi Arabia last year, in addition, gave an additional \$300 million.

The over \$3 billion that the producer nations have subscribed to the Witteveen fund, the special fund in the IMF.

I think they've demonstrated quite adequately -- and we discussed this at great length -- that they are a responsible people in the world financial community.

FLANAGAN: I didn't call them irresponsible. I was...

SECRETARY SIMON: No, I didn't...

FLANAGAN: ...saying, did they have -- did they give you any indications that they worry about where they can put their money, that there are not suitable investment opportunities in Europe?

SECRETARY SIMON: No, they did not, most especially not. We discussed finance and where investments -- now, investments come under two broad headings, one what they wish to do internally, and one, of course, how they will externally invest their funds.

We spoke at great length about the diversification and liquidity that exists in the American capital markets, which, of course, are the most highly developed, I believe, in the world, and the advantages of producer nations investing directly in the United States Treasury securities, directly government-to-government, that is, which obviates the necessity of going into the open market with these large sums of money, which they'd be penalized in the fluctuations in the market created by a purchase of that size. And conversely, when they wish to sell, they would be penalized again. So to do it directly with the United States Government is to their benefit.

But there was no fear on their part of their ability to invest these monies. No, indeed.

Yes, ma'am.

Q: [Inaudible]...If a large [inaudible] sum of money is [inaudible] U.S. Treasury securities, would there be any possibility of the U.S. recycling that to the countries likely to be [inaudible]?

SECRETARY SIMONN: Well, there again, the mechanisms have been set up to assist Italy that I've just described before. And when one talks about recycling, the market performs a recycling process in that if petrodollars find their way directly into United States Government securities, this removes the United States Government, or its federally sponsored agencies, demand from the marketplace, thereby leaving some demand that would have purchased these securities, in our institutions, to be invested elsewhere. And that is -- that is part of the intermediary recycling process.

Q: [Inaudible]

SECRETARY SIMON: Italy thus far this year has borrowed more than double its bill for oil -- its increased bill for oil this year. So I don't necessarily find that true. I think they've adequate access to the Eurodollar market.

Q: [Inaudible] of the Wall Street Journal. Are you saying, then, you don't think the U.S. will have to come up with any additional special measures for recycling back into the Eurodollar market?

SECRETARY SIMON: No, I'm not. I would not be cavalier to suggest something like that. That is one of the purposes of our conversations, when I talk with finance ministers, when I talk about attempting to identify problems before they become larger problems. And there are going to be, undoubtedly, some stresses and strains in the marketplace because anytime a massive flow of funds are placed in the hands of a very few decision-makers, rather than the thousands that would ordinarily handle a decision-making process for this amount of money, you are going to have some distortions.

But these distortions can be worked out, and indeed are being worked out, as the mechanisms that I spoke of just a few minutes ago, and they're being worked out not only by the consuming nations of the world, but in harmony with the producing nations, because as I said, it is in their best interest to make sure that the capital markets of this world are functioning and are liquid.

Q: Is your arrangement with the Saudi Arabians -- I believe that's $8 billion. Is one reason for that...

SECRETARY SIMON: Well, let me say I have - we have, the United States has no arrangement with the Saudi Arabians. We've proposed to the Saudi Arabians a definitive investment proposal. It was illustrative as far as any numbers were concerned or any maturities were concerned, because that will be their decision. If they wish to invest in special issues of United States Treasury securities, then, of course, they will have to assess how much money that they have and what maturity setup that they would like to invest in.

So we had no arrangement.

Q: In talking about such an arrangement, is one purpose to help take the load off the Eurodollar markets? I mean, you know, would that in itself reflect a little bit of uneasiness on your part about the ability of the Eurodollar markets?

SECRETARY SIMON: No, it doesn't It doesn't reflect that at all. This is just a very convenient way for them to invest in the highest-grade security in the world today and, of course, the most liquid, on a government-to-government basis at market rates. And it would facilitate any disruption that a large amount of money always creates when it goes into the marketplace at a given time. And it also gives them the ability to invest instantly, whereas a large amount of money must be invested over a period of time while the securities are being purchased for them. So this is a very convenient mechanism for those countries to basically buy the same securities that they'd be buying in the open market. They're no different than the Treasury securities, with the exception, as we've explained before, that they do have a put arrangement in this special government-to-government.

Q: Mr. Secretary, why, in that case, is it that according to reports from Paris, where you were yesterday, the Arabs did not seem very interested in purchasing such securities?

SECRETARY SIMON: Well, I haven't heard any of these reports. It takes a couple of days for things to catch up with me, the way I'm moving, but they seemed interested, and I will not comment as to whether they will buy these securities in this fashion or whether they won't. That is their decision to make.

Q: But they haven't made it yet...

SECRETARY SIMON: No. They told us that they would be in touch with us in a short period of time.

Q: [Unintelligible], The Times. Discussed with European governments the amount of U.S. Treasury securities you're thinking of selling to the Arabs? Because the more you sell, then the less funds that can be sent to the European countries.

SECRETARY SIMON: The more we sell them, the less funds that can be sent to European countries.

Q: Yes.

SECRETARY SIMON: Well, it really isn't a matter, as I said before, of what we decide we will sell. We have a very large government securities market with some $260 billion in marketable debt outstanding. The choice of the amount of the United States Government securities rests with the purchaser, not with the seller. And we have not -- as you know, the Federal Republic of Germany owns 20 billion of our special issues today. And as I said, in talking about the recycling process, before, the market acts in a recycling fashion, and if there are countries -- and perhaps there will be -- that will be suffering strains due to the fact that they are not participating in this recycling, that is what the other countries of the world must get together and provide the mechanism to do so. And that is very definitely what we discussed.

Q: Mr. Secretary, [Unintelligible], Dow-Jones. There have been persistent reports that Saudi Arabia, sometime

172

in late August or early September, will offer something in the neighborhood of one million barrels a day of crude oil at auction. This would increase the OPEC countries' crude availability by about 5%.

Would you make an estimate of what that would do in the short term to oil prices?

SECRETARY SIMON: You know, that's -- you know, that's a judgmental thing, and I don't know what the size of the Saudi Arabian auction will be in August. I don't believe that's been announced yet. But one might say from the recent experience in auctions, recognizing that there's a surplus in the world oil market today of about a million and a half to two million barrels a day, that one could expect that there is some pressure on the market at the present and that there'll be further pressure as oil is put out for competitive bids, because the tanks around the world are fairly full, number one. And number two, it is quite expensive in this day of extremely high interest rates to finance the inventories.

But it's -- you know, it's impossible to quantify that with 5% more, therefore the price should decline by X. That's really judgment and the market will decide how low it should go, hopefully.

Q: Eric [Unintelligible] of The Times. Early in your press conference you said, in the context of recycling petro-money, "The market can handle it." And then just a few moments ago you said that if the market continues suffering strains because some countries cannot get their share, then there are mechanisms, or there will be mechanisms.

I think the tenor of some of the questions and some of the questions you've also heard in Europe over the past few weeks is, in fact, where are those mechanisms? How in fact do the Europeans get what they regard to be their share of the petrodollars recycled?

SECRETARY SIMON: Well, there again, I did say that the market can handle this. But I also went on to say that I recognized that there could be strains created by this large amount of money. And when we talk about mechanisms, there are the swap lines that have been created, government-to-government, and that have been in existence for a long time, the International Monetary Fund and the special fund, the Witteveen fund, and direct aid, the bilateral aid, the multilateral. There are many mechanisms that can assist these countries that are having difficulties.

But there again, we all are talking in great generalities about first the strains and secondly the countries that are going to have a terrible problem. It hasn't been clearly defined yet...

Q: [Inaudible]

SECRETARY SIMON: All right.

Q: You've had roughly $8 million -- $8 billion of Eurodollar borrowing in this country since March of '73. Some of that was to cover the previous deficit -- out of the Eurodollar market in London. The government here found it necessary to avoid -- or found that they were unable to tap the Eurodollar market and went directly to the Shah on the last...

SECRETARY SIMON: It isn't clear to me that they were unable to go to the Eurodollar market or whether this was just a nice complement and supplement for their borrowing requirements.

Q: It's relatively clear to the members of the Market that they were not -- unable to provide...

SECRETARY SIMON: Well, I think making a long-term agreement on a country-to-country basis is certainly a useful way to borrow money, and complements and supplements an existing marketplace. And the producer nations are a very good source of these funds.

And I read in the newspaper the other day that Italy has announced a long-term agreement with Iraq. And I think that you're going to continue to see these arrangements, the Germany-and-Iran arrangement, etcetera.

Yes, sir.

Q: Do you prefer this, then, to a -- to, in effect, a cooperative method of recycling oil?

SECRETARY SIMON: I think that we have to do -- we have to do everything. There must be a cooperative method and there must be constant cooperation among the countries of the world to help those that are less fortunate. And we fully intend to participate in this cooperative effort. And that is part of the reason for my trip, to make sure that we're defining the right problems and that we're prepared to assist these countries.

Yes, sir.

Q: Lee Rallington (?) from AP-Dow-Jones. You were mentioning earlier that one of the mechanisms might be swap lines. I assume this is [unintelligible] central banks. Is part of this mechanism - did it also involve central banks putting in dollars into the Eurodollar market?

SECRETARY SIMON: That has not been discussed yet, but that's a possibility. There are many ways to assist, but that has not been one of the methods thus far discussed.

Q: In other words, so far, in terms of discussing the mechanisms, one would discuss this in a very general way.

SECRETARY SIMON: Well, I don't think the swap lines had been set up specifically and not used, or the Witteveen fund, the special fund in the International Monetary Fund, which has been established and not used. I think that that demonstrates that while there are problems, certainly, that one cannot categorize these problems as being an emergency at this point, and that in the wisdom of the financial leaders of this world and their keen desire, as I said a minute ago to this gentlemen, the keen desire to cooperate and make sure that the strains, when they occur and if they occur, are relieved in the most orderly fashion to maintain the liquidity in world markets. That is our primary concern and our responsibility, and we intend to meet it.

Yes, sir.

Q: [Inaudible]. The [unintelligible] trip to Washington. Did the idea of the special issue U.S. Treasury securities come from your office or [unintelligible] office as a way of planning investment that the Saudis could put their money into... [inaudible]...safe to put the money into the United States...[inaudible] ...the United States would handle some relieving of the strains. From whom did the idea come?

SECRETARY SIMON: Specifically, we made the suggestion that we would like to explore, when the working group started in Saudi Arabia in mid-July, the idea of special issues, and they were broadly described to them at that time. The session with Prince Fahd and his delegation was very exploratory, to define the areas of the working groups that would participate in Saudi Arabia commencing in mid-July. And this was one of the definitive topics that we brought up that we thought would be useful for them to study, and that is what they're doing.

Yes, sir.

Q: [Inaudible], BBC. When talking with Mr. Lever this morning, sir, did you discuss at all Mr. Lever's earlier plans for the [inaudible]?

SECRETARY SIMON: No, we didn't, because he had come to Washington about a month or so ago and we discussed at some length at that time.

Q: You mean he didn't bring it up again?

SECRETARY SIMON: No, he didn't. No, he didn't. He's a charming gentleman. We had a very spirited conversation this morning.

Yes, sir.

Q: Terry Robards of the New York Times again. Did you discuss with Mr. Healey or any of the other British officials the United States assistance to Britain in financing Britain's trade deficit?

SECRETARY SIMON: No, I didn't. I think we're all well-aware that Great Britain has a line now in the Eurodollar market which it has not drawn upon. And right at present, there was no need to discuss that.

ROBARDS: You didn't discuss the possibility at some future time there might be a need for United States assistance?

SECRETARY SIMON: No, we did not. No. Nor was such a potential need described to us by any of the officials who we met with here.

ROBARDS: In your discussions with them, did they characterize for you the current condition of the British economy?

SECRETARY SIMON: Yes. We talked -- of course, one finance minister to another always sort of starts out with a broad tour of the horizon of his own economy and what he believes the economy and the rate of inflation, which is on everyone's mind, will be at the end of this year. And it's highly unsatisfactory, as we all well know, worldwide, and that's why all the countries of the world are now focusing in to do something about it, including the United States.

ROBARDS: Did Mr. Healey make a prediction to you about what the rate of inflation here would be?

SECRETARY SIMON: Just consistent with what his public statements have been.

ROBARDS: Did he go beyond the end of this year?

SECRETARY SIMON: No. No, he did not.

Q: Mr. Secretary, did you take the opportunity to do any missionary work on the old-time religion, as whether you think the U.K. Government is following it or should follow it?

174

SECRETARY SIMON: I am constantly preaching the old-time religion, and I win a few and I lose a few. And I find many people understand this, that we must begin to attack the causes of this insidious inflation instead of the results of the inflation. And recognizing that it is a bit of bitter medicine perhaps, but it's necessary medicine for everyone to take.

And there are differences of opinion. There are -- we had discussions about the dangers, perhaps, of a worldwide recession, if in each -- if each country in the world kept these tough fiscal programs in place for so long. And some people are more pessimistic on this subject than others.

Q: Could you say that...

Q: Have you had time yet to [inaudible] the OECD figures... [inaudible]...on the question of the U.S....[inaudible].

SECRETARY SIMON: I picked up -- I picked up the OECD book going through Paris yesterday, and I intend to read it on the plane, probably tomorrow, not tonight. But I haven't seen their projection.

Q: Would you say that fears of a trade recession might create an absolute shortage of banks willing to lend money to the requirements of all the different debtors who want to borrow money?

SECRETARY SIMON: Now are you referring to a potential problem in the area of liquidity in the system?

Q: That's right.

SECRETARY SIMON: No, I'm not concerned. You know, the institutions in the private sector are not alone in carrying out a responsibility that -- in every mature financial system the central bank has accepted the role of a lender of last resort. This role describes the responsibility, really, of an entire financial system, not any particular institution. And I have not been concerned with problems.

The two recent problems that we've had have been -- the Franklin Bank and the Herstatt -- have been due to special circumstances involving foreign exchange, and perhaps overcommitment in these areas.

So, I have not been terribly concerned with that. We've seen -- the natural occurrence in the marketplace when conservative, responsible investors, which the producer countries are, go into the commercial bank with their vast sums of money, and the commercial banks accept these deposits when they can reinvest them, can lend them at a higher rate. There reaches a saturation point, and the second step is they're paying below, as they have been, two to three percent below the interbank rate. They then begin to shun deposits that cannot be remployed profitably. And that is when the intermediary function commences into the intermediate and longer-term market. And this healthy because this is what the cycling of funds in the marketplace is. Recognizing there again that this is a heavy concentration of funds in one area, the potentiality of strains in the marketplace that I've mentioned several times. And these are going to have to be addressed in special ways.

MAN: Thank you very much.

SECRETARY SIMON: Thank you.

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

175

FOR IMMEDIATE RELEASE July 31, 1974

AMENDMENT TO TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, amends its invitation for tenders dated July 30, 1974, for weekly Treasury bills.

The aggregate amount of tenders invited for the two series shall be $4,700,000,000 in place of the $4,500,000,000 invited in the July 30 announcement. The amount of tenders invited for 91-day bills shall be $2,700,000,000, or thereabouts, instead of $2,600,000,000 and the amount of tenders invited for the 182-day bills shall be $2,000,000,000, or thereabouts, instead of $1,900,000,000.

This amendment will conform the invitation to the Treasury's announcement today that $200 million would be added to the bills to be auctioned on August 5.

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

176

FOR IMMEDIATE RELEASE July 31, 1974

TREASURY FINANCING

The Treasury will auction to the public next week up to $2.25 billion of 33-month notes, up to $1.75 billion of 6-year notes, and up to $400 million of 8-1/2% 24-3/4 year bonds. The rates for the notes will be announced on Friday, August 2. Additional amounts of the notes and bonds will be allotted to Government accounts and the Federal Reserve Banks in exchange for their holdings of the maturing notes, which total $5.9 billion.

The Treasury will also increase the amount of bills to be auctioned on August 5 and issued on August 8 by $200 million. This is an amendment of the announcement of July 30.

These Treasury issues will provide funds for refunding the $4.3 billion of notes held by the public maturing on August 15 and a portion of the funds needed to cover the Treasury's additional needs estimated to be approximately $3.5 billion by the early part of September. It is anticipated that additional funds will be raised by additions to the regular weekly bill auctions and by issues of other Treasury obligations having a maturity of one year or less to meet the balance of September needs. To the extent that additional special securities are issued by the Treasury to foreign authorities, during the coming weeks, the need for these short-term issues will be reduced.

The notes and bonds to be auctioned will be:

Treasury Notes of Series D-1977 dated August 15, 1974, due May 15, 1977 (CUSIP No. 912827 DV1) with interest payable on November 15, 1974, and thereafter on May 15 and November 15,

Treasury Notes of Series B-1980 dated August 15, 1974, due August 15, 1980 (CUSIP No. 912827 DW9) with interest payable on February 15 and August 15, and

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

Tenders for the 33-month notes will be received up to 1:30 p.m., Eastern Daylight Saving time, Tuesday, August 6, tenders for the 6-year notes will be received up to 1:30 p.m., Eastern Daylight Saving time, Wednesday, August 7, and tenders for the bonds will be received up to 1:30 p.m., Eastern Daylight Saving time, Thursday, August 8 at any Federal Reserve Bank or Branch and at the Bureau of the Public Debt, Washington, D. C. 20226; provided, however, that non-competitive tenders will be considered timely received if they are mailed to any such agency under a postmark no later than August 5 for the 33-month notes, August 6 for the 6-year notes, and August 7 for the bonds. Each tender 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 and bonds 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 33-month notes, 98.51 for the 6-year notes, and 94.01 for the bonds will not be accepted. Tenders at the highest prices will be accepted to the extent required to attain the amount offered. Successful competitive bidders will be required to pay for the securities at the price they bid. Noncompetitive bidders will be required to pay the average price of all accepted competitive tenders.

Fractions may not be used in tenders. The notation "TENDER FOR TREASURY NOTES (Series D-1977 or B-1980)" 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 will be accepted in full at the average price of 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, 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 the 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 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 Thursday, August 15, 1974. Payments for the bonds must include interest from May 15 to August 15, 1974, in the amount of $21.25 per $1,000 of bonds allotted. Payments must be made at the Federal Reserve Bank or Branch or at the Bureau of the Public Debt in cash, 5-5/8% Treasury Notes of Series B-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 at the Treasury by Tuesday, August 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.

178

Ownership of the August 15, 1974 Maturity

(In millions of dollars)

	5-5/8% Note
Commercial banks......................	2,183
Mutual savings banks..................	69
Insurance companies:	
Life..................................	12
Fire, casualty and marine.............	95
Total, insurance companies........	107
Savings and loan associations.........	179
Corporations..........................	658
State and local governments...........	613
All other private investors...........	528
Total, privately held............	4,337
Federal Reserve Banks and Government Accounts................	5,947
Total outstanding.....................	10,284

Office of the Secretary of the Treasury
Office of Debt Analysis

July 31, 1974

Removal Notice

FRASER

The item identified below has been removed in accordance with FRASER's policy on handling sensitive information in digitization projects due to

Citation Information

Document Type:

Number of Pages Removed:

Author(s):

Title:

Date:

Journal:

Volume:

Page(s):

URL:

Removal Notice

FRASER

The item identified below has been removed in accordance with FRASER's policy on handling sensitive information in digitization projects due to

Citation Information

Document Type:

Number of Pages Removed:

Author(s):

Title:

Date:

Journal:

Volume:

Page(s):

URL:

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

188

FOR IMMEDIATE RELEASE
August 1, 1974

INQUIRIES: 254-8610

OES ISSUES PRICE/PAY
NEW PROCEDURAL REGULATIONS

The Office of Economic Stabilization, Department of the Treasury, today issued regulations modifying the procedures for requesting approval of price and pay adjustments that relate back to the period ending April 30, 1974. The Office of Economic Stabilization (OES) is responsible for administering the orderly termination of the wage and price controls program conducted under the Economic Stabilization Act of 1970.

The purpose of these new procedural regulations is to permit the OES to dispose of the pending business of the Economic Stabilization Program by the termination date of December 31, 1974 established in Executive Order 11788.

The major changes provided under the new regulations are as follows:

- A request for exception to the price control rules must be received by the OES on or before August 31, 1974, in order to be considered.

- If a firm submitted a price exception request prior to August 1, and the request has not been acted on by the OES, the firm may implement the requested exception on September 1, 1974, unless the OES acts on the matter during the month of August.

- If a firm submits a price exception request during the month of August, the firm may implement the requested exception on the 31st day after the request was received by the OES, unless the OES acts on the matter during the intervening period.

WS-75

1 89

- A request for approval of a wage and salary increase for work performed prior to May 1, 1974, must be received by the OES on or before August 31, 1974, in order to be considered. The only exception to this rule applies to collective bargaining agreements entered into or modified on or after August 1, 1974; in such cases, the parties will have 30 days, or until September 30, 1974, whichever is later, in which to request approval of any pay adjustments retroactive in effect to the period ending April 30, 1974.

- Requests for approval of price exceptions with respect to providers of health services no longer need be submitted first to the State advisory boards. Such requests should be submitted directly to the OES. This change is effective August 1, 1974.

ATTACHMENT

oOo

190

TITLE 6 - ECONOMIC STABILIZATION

CHAPTER VI - OFFICE OF ECONOMIC STABILIZATION, DEPARTMENT OF THE TREASURY

PART 601 - STABILIZATION ACTIVITIES AFTER JUNE 30, 1974

Procedural Amendments

The purpose of these amendments is to provide for the orderly termination of certain administrative proceedings with respect to prices charged prior to May 1, 1974, and wages paid with respect to work performed prior to that date.

Since, under the provisions of Executive Order 11788, the authority of the Office of Economic Stabilization (OES) extends only to December 31, 1974, the OES believes it is necessary and appropriate to take steps now to simplify administrative procedures relating to the submission of requests for exception under the rules of the Economic Stabilization Program. These amendments are designed to reduce the existing backlog of requests for exceptions and to diminish the further need for and availability of exceptions relief. In promulgating these amendments, the OES is mindful of the need to keep administrative remedies and procedures available for as long as possible, particularly for firms (such as some providers of health services) which are as yet unable to determine final revenues for past fiscal years. The OES is also aware of its responsibilities to the public to continue to monitor

191

compliance with the economic stabilization regulations for past years. However, it is obvious that some accomodation must now be made in order to provide for an orderly end to the administration of the wage and price controls program within the reasonable period of time prescribed by Executive Order 11788.

The new procedural rules applicable to price matters are set forth in §601.12 and provide substantially as follows:

(1) Only requests for exceptions which are received by the OES prior to September 1, 1974, will be accepted for consideration. Firms which do not have final data and which believe a reasonable basis is present for approval of an exception should submit an exception request supported by the best available data and estimates. The cutting off of exceptions relief on September 1, 1974, does not, of course, preclude any firm which might later become the subject of a compliance action from asserting gross inequity or serious hardship for the limited purpose of seeking mitigation or waiver of penalties, and the OES will in such a case take into account the possible absence prior to September 1, 1974, of data that might have provided the basis for a legitimate exception request.

(2) In order to expedite consideration and disposition of exception requests received within the time allowed, two procedural changes are made. First, a firm which submitted an exception request which was properly prepared and submitted in

192

accordance with law and was not disposed of prior to August 1, 1974, may, in the absence of OES action, avail itself of the relief requested, effective September 1, 1974. Second, a firm which on or after August 1 and before September 1, 1974, submits a new exception request which is properly prepared and submitted in accordance with law may, in the absence of OES action, avail itself of the relief requested on the thirty-first day after the date of receipt of the exception request by the OES. However, the OES may, within the times prescribed above, approve, disapprove or modify the relief requested or temporarily suspend the running of the 30-day or other period during which the OES may take action. An exception request is not a "new" one (and therefore not subject to these provisions) if the matter at issue was substantially disposed of previously under the Economic Stabilization Program in response to an exception request or other request for action.

(3) The time permitted for submission of requests for reconsideration of a denial of a price exception request is reduced from 30 to 10 days. This change applies with respect to requests for reconsideration of exceptions decisions issued on or after September 1, 1974. The 30-day period for submission of requests for reconsideration originated in §305.34 of the Price Commission regulations, issued in April, 1972. Prior to that time, the Price Commission regulations provided a 10-day period. The OES does not believe

193

a reversion to the original time frame will compromise any firm's opportunity to make an adequate submission to the OES.

The OES realizes that this necessary compression of administrative procedures under the remaining period of the Economic Stabilization Program may have the effect of causing some firms to make submissions at earlier dates than they would otherwise have selected. This situation may be especially common in the health care industry. Hospitals, nursing homes and other institutional providers of health care services typically derive over 50% of their revenues from third-party payors such as Medicare, some Medicaid and some Blue Cross/Blue Shield plans, which reimburse the health care institutions for the cost of services provided to patient-beneficiaries. Often considerable delay -- as much as two years or more -- is experienced in establishing final, audited amounts paid or to be paid over by the reimbursing agency. This means that providers of health services are often not certain during a fiscal year subject to price controls whether their revenues will eventually be determined to exceed the revenue levels permissible under the Economic Stabilization Program. Consequently, under the regulations in effect prior to these amendments, the Office of Economic Stabilization, as successor to the Cost of Living

Council, would continue to receive, for some time to come, requests for exception and other administrative actions relating to fiscal years ending prior to May 1, 1974, where final third-party reimbursements result in excess revenues. It is no longer possible for the OES to continue to hold itself available indefinitely to receive and consider exception requests in the health industry or in any other segment of the economy. Therefore, these procedural amendments are issued to permit the OES to complete the business of the Economic Stabilization Program no later than December 31, 1974.

New procedural rules applicable to pay matters are set forth in §601.13. Generally, all requests for approval of wage and salary increases must be received by the Office of Economic Stabilization not later than August 31, 1974. The only exception to this rule applies to wage and salary increases called for under the terms of a collective bargaining agreement entered into on or after August 1, 1974, or under the terms of a modification of a labor contract if such modification occurs on or after August 1, 1974. In such cases, a request for approval of the retroactive increase must be received by the Office of Economic Stabilization not later than September 30, 1974, or the thirtieth day after the date on which the agreement or modification is entered into, whichever is later. Failure to make a submission within the requisite period constitutes an irrevocable waiver of the opportunity

195

to receive approval of retroactive wage and salary increases with respect to work performed prior to May 1, 1974. The new pay procedural rules do not contain any provision for a 30-day "clock" or other device permitting approval of a proposed pay adjustment by means other than an express decision and order of the OES.

Specific new price procedural rules are also prescribed in §601.11 with respect to providers of health care services:

It is no longer necessary to obtain the recommendation of a state advisory board or agency in regard to an exception request, as previously required pursuant to §§300.18(c)(2) and 300.18(f)(institutional providers of health services, Phases II and III, and Subpart O of Phase IV price regulations), §§150.714(a) and 150.715 (acute care hospitals, Subpart R), or §§150.782(a) and 150.783 (long-term care institutions, Subpart R). It is also no longer necessary to submit price schedules to third parties or intermediaries where the effect of price increases is to increase aggregate annual revenues by 2.5% to 6.0%, pursuant to §300.18(c)(1). Finally, intermediaries are neither encouraged nor authorized to exercise a supervisory role with respect to compliance by providers of health services under the Economic Stabilization Program. Intermediaries may continue to offer advice to health providers and to inform the OES of any

156

suspected violations, but they are not authorized to take or withhold action (such as withholding reimbursements) under any assumed obligation to monitor or supervise compliance.

Because the purpose of these amendments is to provide immediate guidance with respect to decisions of the OES, and in order to establish procedural rules for the orderly termination of the Economic Stabilization Program within the time prescribed by Executive Order 11788, the OES finds that notice and public procedure thereon are impracticable and that good cause exists for publishing these procedural amendments without proposed rulemaking.

The amendment which adds a new §601.11 is effective August 1, 1974. Because the purpose of this amendment is to provide immediate guidance with respect to decisions of the OES, and because the effect of the amendment is to eliminate procedural requirements which are deemed no longer necessary to the administration of the Economic Stabilization Program, the OES finds that publication in accordance with normal rulemaking procedure is impracticable and that good cause exists for making this amendment effective now.

The amendments which add new §§601.12 and 601.13 do not provide for operative dates until August 31, 1974, or later, and are effective August 31, 1974. Interested persons are invited to submit written comments regarding any of these amendments prior to or

/ 97

after August 31, 1974. The OES will consider proposals for modification of these regulations if a strong showing is made warranting such action. Comments should be addressed to Office of the Chief Counsel, Office of Economic Stabilization, Department of the Treasury, 2000 M Street, N.W., Washington, D.C. 20508, and should be prominently designated "Comments on Procedural Amendments."

In consideration of the foregoing, Part 601 of Title 6 of the Code of Federal Regulations is amended as set forth below. The amendments which designate previously existing sections as Subpart A and which add new §601.11 are effective August 1, 1974. The amendments which add new §§601.12 and 601.13 are effective August 31, 1974.

(Economic Stabilization Act of 1970, as amended, Pub.L. 92-210, 85 Stat. 743; Pub.L. 93-28, 87 Stat. 27; E.O. 11788, 39 FR 22113; Treasury Department Order No. 233, 39 FR 24501.)

Issued in Washington, D.C., August 1, 1974.

Henry H. Perritt, Jr.
Deputy Director
Office of Economic Stabilization
Department of the Treasury

198

Paragraph 1. In 6 CFR, Part 601 is amended by designating the existing sections as "Subpart A - General" and by adding the heading "Subpart A - General" immediately preceding §601.1.

Par. 2. In 6 CFR, Part 601 is further amended by adding at the end thereof a new Subpart B to read as follows:

Subpart B - Procedures

§601.11 Providers of health services.

(a) Scope. This section modifies certain administrative procedures as they apply to providers of health services subject to Subpart O or R of Part 150 of this title or to §300.18 or 300.19 of this title, and is effective August 1, 1974.

(b) State advisory boards. The requirement to obtain the recommendation of a state advisory board or agency with respect to an exception request pursuant to §§300.18(c)(2) and 300.18(f), §§150.714(a) and 150.715, and §§150.782(a) and 150.783, is hereby terminated.

(c) Reports. The requirement under §300.18(c)(1) to submit price schedules to third parties or intermediaries where the effect of price increases is to increase aggregate annual revenues by more than 2.5% but not more than 6% is hereby terminated.

(d) Compliance monitoring by third parties. Third-party payors or intermediaries are no longer encouraged or authorized

199

to supervise compliance with the rules of the Economic Stabilization Program by taking or withholding any action (such as withholding reimbursements to providers of health services) which was assumed to be imposed by virtue of the Economic Stabilization Program. Only the Office of Economic Stabilization may determine whether a provider of health services is in compliance with the rules of the Economic Stabilization Program.

§601.12 Price procedures.

(a) Scope. This section applies to all firms, including providers of health services, seeking relief from the price stabilization rules of this title, and supersedes any inconsistent provisions of Part 155 of this title, effective August 31, 1974.

(b) General August 31, 1974, cut-off date. A request for exception or exemption must be received by the Office of Economic Stabilization on or before August 31, 1974, in order to be accepted for consideration.

(c) Implementation of requested relief. -- (1) Matters pending prior to August 1, 1974. A firm which submitted an exception request which was properly prepared and submitted in accordance with law and was not disposed of prior to August 1, 1974, may, in the absence of action by the Office of Economic Stabilization under paragraph (d) of this section, avail itself of the relief requested, effective September 1, 1974.

(2) 30-day "clock." A firm which on or after August 1, 1974, and before September 1, 1974, submits a new exception request which was properly prepared and submitted in accordance with law may, in the absence of action by the Office of Economic Stabilization under paragraph (d) of this section, avail itself of the relief requested on the thirty-first day after the date of receipt of the exception request.

201

(d) Action by the Office of Economic Stabilization. The Office of Economic Stabilization may, within the times prescribed in paragraphs (c)(1) and (c)(2) of this section, as applicable, approve, disapprove, or modify the relief requested or temporarily suspend the running of the time prescribed in such paragraphs during which the Office of Economic Stabilization may take action.

(e) Requests for reconsideration. Notwithstanding the provisions of §155.104, a request for reconsideration of a decision issued on or after September 1, 1974, which denies, in whole or in part, the relief requested in a request for exception, shall be accepted for consideration only if received by the Office of Economic Stabilization not later than 10 days after service of the decision with respect to which reconsideration is sought.

2~~0~~2

§601.13 Pay procedures.

(a) Scope. This section applies to all employers and employees making submissions with respect to wage and salary increases under the provisions of parts 152 and 153 of this title, and supersedes any inconsistent provisions of such parts, effective August 31, 1974.

(b) General August 31, 1974, cut-off date. Except as provided in paragraph (c) of this section, in order to be accepted for consideration, a request for approval of a wage and salary increase must be received by the Office of Economic Stabilization not later than August 31, 1974.

(c) Special rule. In the case of wage and salary increases provided under the terms of a collective bargaining agreement (or a modification of a collective bargaining agreement) entered into on or after August 1, 1974, a request for approval must be received by the Office of Economic Stabilization not later than September 30, 1974, or the thirtieth day after the agreement or modification providing for such increases is entered into, whichever date is later, in order to be accepted for consideration.

(d) Failure to request approval. Failure to request approval of a wage and salary increase within the prescribed period constitutes a final waiver of the opportunity to obtain the approval of the Office of Economic Stabilization. In case

283

of such a waiver, no wage and salary increase may be implemented with respect to work performed prior to May 1, 1974, except as otherwise authorized under the provisions of part 152 of this title.

(e) Extension of time. The Office of Economic Stabilization may, upon a showing of extreme hardship or other extraordinary circumstances, extend for 14 days only the period in which a request for approval may be submitted under this section. However, a request for such an extension must be received by the Office of Economic Stabilization within the time provided in this section for submission of the request for approval.

(f) Application illustrated. The application of this section may be illustrated by the following examples:

Example 1: On August 4, 1974, Employer A and Union X enter into a new collective bargaining agreement that applies to employees in the health services industry and provides a pay adjustment of 8% retroactive to February 1, 1974, the first day of the current control year. The parties may implement a 5.5% increase for the period February 1, 1974 through April 30, 1974, but must obtain the approval of the Office of Economic Stabilization in order to implement any greater increase for that period. Under the provisions of §601.13(c), a request for approval of the increase may be submitted on or before September 30, 1974. If

204

a request for approval is not submitted by September 30, 1974, the parties will be considered to have waived the right to request approval by the Office of Economic Stabilization, and the full increase may not be implemented for the period February 1, 1974 through April 30, 1974.

Example 2: On September 5, 1974, pursuant to the operation of a wage reopening provision in their existing collective bargaining agreement, Employer B and Union Y agree on a 7% wage increase that applies to employees in the food manufacturing industry and is retroactive to March 1, 1974, the first day of the current control year. The parties may implement a 5.5% increase for the period March 1, 1974 through April 30, 1974, but must obtain the approval of the Office of Economic Stabilization in order to implement more than that amount for that period. Under the provisions of §601.13(c), a request for approval of the increase may be submitted on or before October 5, 1974 (the thirtieth day following the date on which the wage increase is agreed to). If a request for approval is not submitted by October 5, 1974, the parties will be considered to have waived the right to request approval of the Office of Economic Stabilization, and the full increase may not be implemented for the period March 1, 1974 through April 30, 1974.

205

Example 3: On June 15, 1974, Employer C and Union Z entered into a collective bargaining agreement affecting employees in the construction industry, and providing for a wage increase retroactive in effect to April 1, 1974. Such wage increases for the period April 1 through April 30, 1974, previously required approval of the Construction Industry Stabilization Committee (CISC). However, the parties did not seek the approval of the CISC and have not implemented the wage increase with respect to work performed during the month of April. If the parties wish to implement the contract increase for that month, they must submit a request for approval of the increase to the Office of Economic Stabilization not later than August 31, 1974. Failure to make such a submission by that day will be considered to be a waiver of the right to request approval by the Office of Economic Stabilization, and the parties will not be able to implement the wage increase for the month of April, 1974.

206

From July 1, 1974 through July 23, 1974, the Office of Economic Stabilization (OES), Department of Treasury, has taken the following actions:

Price

Requests for Exception - Denials

Short Stop, Inc. - Request for exception from provisions of 6 CFR, Part 140 to increase the price of gasoline in excess of freeze base period price.

Requests for Reconsideration - Denials

Hillman's, Inc. - Request for reconsideration of an order of the Cost of Living Council denying petitioner's request to be reclassified during its current fiscal year from a Price Category II firm to a Price Category III firm and thereby be relieved of quarterly reporting requirements.

Howard Johnson Company - Request for reconsideration of an order of the Cost of Living Council denying petitioner's request to be allowed to increase prices during Phase IV, Stage A for Food, to the extent of "allowable cost increases" as defined in 6 CFR 140.92, without limitation to a direct, item-by-item pass-through.

207

Tom Boy, Inc. - Request for reconsideration of an order of the Internal Revenue Service denying petitioner's request for a modification of the pricing base period.

Approval of Completion of Voluntary Compliance Plan

Helme Products, Inc. - OES has accepted the certification of price reductions totalling $123,430.27 in full performance of the firm's Voluntary Compliance Agreement.

Health

Requests for Exception

OES acted on sixty-two (62) Requests for exception. Of that number, four (4) were approved in full, nine (9) were partially approved, nine (9) were denied, and forty (40) were closed or dismissed without prejudice.

Requests for Reconsideration

OES acted on nine (9) Requests for reconsideration. Of that number, four (4) were granted, one (1) was denied, and four (4) were closed or dismissed.

Compliance Actions

OES acted on sixteen (16) compliance cases. In eight (8) cases it ordered price reductions and refunds, in one (1) case it vacated an earlier order to reduce prices and make refunds, in six (6) cases it approved Voluntary Compliance Agreements, and in one (1) case it accepted the completion

208

of a Voluntary Compliance Agreement.

Appeals from IRS

OES closed one (1) appeal from an Internal Revenue Service decision.

Copies of all of the OES orders discussed above are available for inspection at the OES Public Reference Room, 2000 M Street, N.W., Washington, D.C. 20508.

Compromise Settlements

The Office of Economic Stabilization, Department of the Treasury has accepted an offer of $100,000.00 from Daniel International Corporation in full settlement of civil claims for the following alleged violation: profit margin violation for its 1973 fiscal year.

Daniel International Corporation, a construction company, is located in Greenville, South Carolina.

The Office of Economic Stabilization, Department of the Treasury, has accepted an offer of $5,000.00 from Gorrie Development Corporation in full settlement of civil claims of the United States for the following alleged violation: profit margin violation for its 1973 fiscal year.

Gorrie Development Corporation, a construction company, is located in Birmingham, Alabama.

209

Settlement of Lawsuit

The government has consented to a dismissal of its lawsuit against Spartan Mills. The suit, filed in July of 1973, charged Spartan Mills with various violations of the Phase II price regulations. The firm has now made refunds of $495,975 to its customers and paid the government $50,000 in civil penalties, and therefore the government has consented to the dismissal of the suit.

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

7-10

FOR RELEASE 6:30 P.M. August 1, 1974

RESULTS OF TREASURY'S 44-DAY TAX ANTICIPATION BILL AUCTION

Tenders for $1.5 billion of 44-day Treasury Tax Anticipation bills to be issued August 7, 1974, and to mature September 20, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS: (Excepting 1 tender of $200,000)

High	- 98.900	Equivalent annual rate	9.000%
Low	- 98.790	Equivalent annual rate	9.900%
Average	- 98.820	Equivalent annual rate	9.655% 1/

Tenders at the low price were allotted 52%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted
Boston	$ 152,820,000	$ 76,665,000
New York	2,215,400,000	259,200,000
Philadelphia	45,335,000	5,335,000
Cleveland	130,715,000	115,215,000
Richmond	12,540,000	8,560,000
Atlanta	10,050,000	3,350,000
Chicago	650,190,000	410,890,000
St. Louis	42,615,000	32,375,000
Minneapolis	522,095,000	346,255,000
Kansas City	190,900,000	179,765,000
Dallas	43,525,000	23,525,000
San Francisco	277,355,000	39,155,000
TOTALS	$4,293,540,000	$1,500,290,000 2/

1/ This is on a bank-discount basis. The equivalent coupon-issue yield is 9.91%.

2/ Includes $ 234,525,000 noncompetitive tenders accepted at the average price.

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

211

FOR IMMEDIATE RELEASE August 2, 1974

COUPON RATES ANNOUNCED FOR NEW TREASURY NOTE ISSUES

The Treasury has set a coupon rate of 9% for both the $2.25 billion of 33-month notes and the $1.75 billion of 6-year notes, the sale of which was announced on July 31. The series titles will be 9 percent Treasury Notes of Series D-1977 and 9 percent Treasury Notes of Series B-1980. The 33-month notes will be auctioned on Tuesday, August 6, and the 6-year notes will be auctioned on Wednesday, August 7.

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, and subscribers may have to pay slightly more or less than $1,000 for each $1,000 face amount of securities.

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

FOR IMMEDIATE RELEASE 212 August 2, 1974

SECRETARY SIMON SWEARS IN
GARDNER, ALBRECHT AND COOPER

Treasury Secretary William E. Simon today conducted swearing-in ceremonies for Stephen S. Gardner, Richard R. Albrecht, and Charles A. Cooper.

Mr. Gardner, 52, who became Deputy Secretary of the Treasury, comes from the Girard Trust Bank in Philadelphia where he had served as Chairman of the Board since 1971.

Mr. Albrecht, 41, became General Counsel of the Treasury. He had been a partner, since 1968, in the law firm of Perkins, Coie, Stone, Olsen, and Williams of Seattle, Washington.

Mr. Cooper, 40, became Assistant Secretary of the Treasury for International Affairs. Since May of 1973, he had served as Deputy Assistant to the President for International Economic Affairs, National Security Council.

oOo

WS-76

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

213

FOR RELEASE AT 10:00 A.M.
FRIDAY, AUGUST 2, 1974

STATEMENT OF
THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE JOINT ECONOMIC COMMITTEE
WASHINGTON, D. C.
AUGUST 2, 1974

Mr. Chairman and Members of the Joint Economic Committee,

Your Mid-Year Reviews provide a valuable opportunity to examine current economic developments and to make plans for the future. It is a pleasure to be here today and to participate in these deliberations.

In this statement, I plan to comment briefly on both domestic and international aspects of our current situation. There is, however, no need for me to cover in detail our recent and prospective economic performance or our basic economic policies. These have been carefully and thoroughly described within the past week by the President and other Administration spokesmen.

WS-74

Nevertheless, I do want to say a few more words about the intolerably rapid rate of inflation we are now experiencing. Domestically this has become the dominant, overriding -- almost overwhelming -- fact of economic life. Americans are experiencing their first sustained siege of rapid peacetime inflation. It is a new and most unwelcome experience. They do not understand where double-digit inflation came from and they lack confidence that their government will be able to get the situation under control.

How did we get here? I will not try to retrace all the causes of the current inflation, or try to fix the blame one place or another. Without too much risk of oversimplification, I think it is fair to say that the price explosion of 1973-74 is primarily attributable to (a) a series of severe temporary shocks that originated mostly outside the U.S. economic system and (b) almost a decade of excessively stimulative fiscal and monetary policies.

The outside shocks are, by now, familiar to all of us: the world-wide agricultural crop failures of 1972, enormous pressures on the prices of internationally traded raw materials, two devaluations of the dollar, and the Arab oil embargo. In addition, the end of the controls

214

program is now operating as an additional temporary force to raise some prices and wages faster than otherwise would have been the case.

But all these special factors, as important as they have been, are of a temporary, one-shot nature. Had our general economic policies not been too stimulative, the outside shocks would have had only a one-time effect. Once they had worked their way through the system, the inflation would have settled down again to a tolerable rate.

But our general economic policies have, in fact, been far too stimulative for a long period of time. Let me give you two examples of how policy changed in the mid-1960s. First, on the fiscal side: from 1955 to 1965 Federal expenditures rose at roughly a 6 percent annual rate. From 1965 to 1974, however, Federal expenditures surged to a 10 percent annual rate of growth. Second, monetary policy also broke out of a previously established pattern. From 1955 to 1965 the money supply grew at a 2 1/2 percent rate. Since then, the growth rate has more than doubled to a 6 percent annual pace. It is no accident that during the earlier period we had a rather stable price performance, but since 1965 we have had the worst peacetime inflation in our history.

What has and is happening, then, is that the excessive budget deficits and the excessive growth of money and credit in recent years prevented the "temporary" price pressures from running their course and fading away. Instead, much of the inflation from the outside shocks is or soon will be deeply embedded in our entire system. It is or soon will be embedded into the pattern of wage settlements and into the structure of interest rates. It is or soon will be embedded into the economic expectations of consumers, of workers, of investors, of businessmen -- everybody.

And because this inflation is becoming so deeply embedded, squeezing it out of the system will be a long, tough process. It is a most difficult challenge for economic policy.

In my opinion the correct course of action is to apply the necessary fiscal and monetary discipline persistently and consistently to keep the economy operating within the limits of its capacity to produce. The economy can be prosperous and it must continue to grow, but we must not let it continue to run away with itself. Demand will have to be held slightly below total potential output. 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

215

of wage determination can result in a gradual deceleration of the upward trend of pay scales.

Let me emphasize that this fight against inflation will take time, years of it. There are no shortcuts, no acceptable quick solutions. 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.

The President has put forward a coordinated program for dealing with inflation. The first requirement is to relieve those pressures of excessive demand in the economy that have caused the acceleration of advances in the price level. The second part of the program has to do with measures to relieve the casualties and inequities of inflation.

There are many who question the effectiveness of restrictive fiscal policy to counter these fundamental inflationary pressures. In my view, however, the evidence of experience is clear that fiscal restraint applied consistently and in tandem with monetary restraint can bring inflation under control.

I have attached to my statement a chart -- a very instructive chart, I believe -- that shows the broad relationship between the budget and inflation. As seen on the chart, the actual budget position does not correlate closely with the rate of inflation. This is where the full-employment budget proves itself to be a useful guide to economic policy; the full-employment calculation adjusts the budget data to remove the impact of the economy on the budget, and thereby brings out the impact of the budget on the economy. And when the full-employment budget position is compared to the rate of inflation, a fairly high degree of correlation shows up. The relationship is less than perfect, but in the broad sweep of things it is clear that sustained budget surpluses are associated with below-average inflation, and sustained budget deficits are associated with above-average inflation.

There are two years during the 26-year span covered by the chart in which the inflation is far higher than can be accounted for by fiscal policy. These years are 1950-51 and 1973-74, which were the two occasions when commodity inflation (food and industrial raw materials) had an extraordinarily large, one-time impact on the general price level. Aside from those two occasions, the relationship strongly supports the general notion that budget deficits are inflationary and budget surpluses are not inflationary.

216

I do not want to suggest that countering inflation is so simple that all we have to worry about is our budget position. Quite the contrary. We all know that "money matters" and that we have to be concerned with monetary policy. Arthur Burns has already testified that a 6 percent growth in money is too high for price stability over the longer term. He has also stated that monetary policy will be conducted so as to avoid a credit "crunch".

In this regard, we should remember that a strong, steady fiscal policy is especially important when, as at present, demands for financing capital formation and housing are heavy relative to the flow of national savings. I believe the normal target for the budget should be a surplus equal to 1-2 percent of Federal outlays. With such a surplus, which would add roughly 2 percent to the national savings stream, credit requirements would be in approximate balance with this flow of savings, and the needed steadier course for monetary policy would then be less endangered by the risks of floundering credit and capital markets.

Any well-conceived anti-inflation program must also have regard for the casualties of inflation and for those whose earnings may be interrupted for a time by a program of disinflation. Without getting into detail, let me say that I believe we can gradually reduce inflation without suffering massive unemployment. For a time, we will have to live with slightly more unemployment than we would like, but it will not have to be a large amount. To deal with this contingency, the President has proposed improvements in our system of unemployment compensation, and I again urge Congressional passage.

Strains in the financial markets have had particularly adverse effects on housing, and in May the President put forward a $10 billion program to augment the supply of mortgage funds. These financial strains together with higher prices of primary energy have -- because of the slow pace of the regulatory process -- produced dangerously low earnings for many companies in regulated industries. While these are largely state and local regulatory bodies which must act, the Administration is examining what might be done to speed up the needed changes. These illustrate the kinds of economic adjustments that must be accommodated in order to facilitate the disinflationary process.

Summing Up. To bring our price disease under control, we will have to keep our general economic policies under firm control. There is no acceptable alternative. We can and will pursue complementary policies -- maximizing agricultural production, reorganizing inefficient government regulatory practices, and others. But the key is to keep demands in the economy within the limits of its productive capacity through balanced fiscal and monetary restraint.

If we do not do so, we will continue to have the cruel, indiscriminate, insidious tax of inflation. Inflation hurts everybody -- people on every rung of the income ladder, corporations, financial institutions, state and local governments -- everybody. Most of all, it hurts the poor. And if we do not 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 equitable routes of achieving balance between outlays and revenues.

Profits

Before closing this discussion of our domestic economic situation, I want to say a few words about profits. To curb inflation, our policy in the short run must be to restrain demand. In the long run, however, we must make every effort to expand our productive capacity. To this end adequate profit incentives are crucially important.

In the last year or two, there has been much talk about an excessive increase in corporate profits. I am afraid, however, that these increases in profits have not been put into proper perspective. In particular, there has been inadequate recognition of the impact of inflation on this measurement of profits.

For example, nonfinancial corporations reported profits after taxes in 1973 of $55 billion as compared to $38.2 billion in 1965, an apparent 44 percent increase. But when depreciation is calculated on a basis that provides a more realistic accounting for the current value of the capital used in production and when the effect of inflation on inventory values is eliminated, after-tax profits actually declined by 21 percent, from $36.1 billion in 1965 to $28.5 billion in 1973. One major factor behind this decline is the fact that taxes were paid on these fictitious elements of profits, which resulted in a rise in the effective tax rate on true profits from about 43 percent in 1965 to 59 percent in 1973. On this basis, furthermore, after dividend payments, the retained earnings available for reinvestment, which were $19 billion in 1965, were only $5 billion in 1973.

Thus, a more realistic calculation shows that the sharp rise in profits was an optical illusion caused by inflation. And this helps to explain why the ability of business to increase its productive capacity is in jeopardy and why our financial markets are so congested.

218

In this context, it is not surprising that basic industries such as steel, coal, natural gas and aluminum are experiencing shortages in productive capacity. Increased productivity and decreased government spending are the two essential lines of attack against inflation. Both the Administration and the Congress must reassess past legislation that stimulates consumption and inhibits saving and investment. No nation can neglect investment in favor of consumption for very long and still prosper. I am quite concerned that since 1960, plant and equipment spending in the United States was only 15 percent of total output, whereas France invested 18 percent, Germany 20 percent and Japan 27 percent. And furthermore, for gross domestic investment (which includes inventories, housing and public investment), the proportion for 1973 are: United States 17 percent, France 26 percent, Germany 25 percent and Japan 37 percent.

The International Economy

We have now had more than a half year's experience with the increased oil prices announced late last year. The international economy has been profoundly changed. Fortunately the most exaggerated fears of some have not proved justified. But we are confronted by difficult problems, related both to petroleum developments and to worldwide inflation, which together have led to a widespread slowdown in economic growth this year.

As in the United States, people everywhere are suffering the wrenching pains of inflation. Few countries have escaped double-digit rates of price increase and almost all are experiencing inflation rates considered intolerable by past standards.

Inflation is a common problem around the world in part because of the strong forces that carry price pressures across national boundaries. Fundamentally, this reflects our growing interdependence -- the fact that the links among nations have become stronger as international trade has grown more rapidly than domestic trade. To illustrate the importance of the international transmission of inflation, I would cite recent forecasts of the Organization for Economic Cooperation and Development that increases in the price of imported oil will directly add some 1 1/2 percentage points to the rate of inflation in OECD member countries this year, and increases in the prices of imports of other primary products another percentage point. These figures do not allow for secondary effects of the import price rises on domestic prices, and thus understate the total price effect. Another striking measure of the price increases affecting international trade is that in the first half of 1974 the average value of OECD imports, swollen by the oil price increases, rose by 65 percent and the average value of exports by 32 percent.

I found in my recent travels abroad that others view the inflationary problems we are experiencing in this country somewhat differently than we do. In fact, others look at our

219

record with a certain envy. While this does not make our inflation easier to bear or to deal with, the fact is that we are doing better than many other countries. Consumer prices have been rising at rates of about 12 percent in the United States, but this compares with figures of some 30 percent for Japan and 15 to 20 percent for Italy, the United Kingdom and France. In Germany, on the other hand, where strong policies of demand restraint have been pursued for an extended time, prices are rising at a rate of less than 8 percent.

Recognition of the common danger of inflation has in recent months brought about a more realistic view of the prospects for growth. At the turn of the year, against the background of an oil embargo, some thought the oil consuming nations might be thrown into chaos, and the spectre of a 1930's depression was raised. Today, the embargo is lifted and energy shortages are no longer a severe restraint on growth. While the industrial world is still experiencing a slowdown, there is wide agreement that the slowdown is essential if we are to control the forces of inflation. There is a healthy recognition that the inflationary costs of excessive expansion would be unacceptable. While we cannot turn our backs on the possible future need for stimulative policies, it is understood that nothing could more severely threaten the fabric of our societies than to hit the throttle at a time when we should have our foot firmly on the brake.

The increase in oil prices brought with it the danger of an escalation of trade restrictions. There was concern that importing nations, seeing their own trade balances deteriorate because of increased oil imports, might impose restrictive trade measures which would simply shift more of the deficit elsewhere, and the cumulative effect could be excessive domestic deflation. This must, of course, be watched. However, OECD member countries agreed in May to a declaration of intent to avoid recourse to restrictive measures. In June the IMF Committee of Twenty agreed to a similar pledge for adherence by the broader membership of the International Monetary Fund. The United States strongly supported both these moves, and we are confident they will reinforce the commitment of the world trading community to a liberal trading order. It is critical that the Congress help us maintain the momentum toward expanding world trade by prompt and affirmative action on the Trade Reform Act, so that the "Tokyo Round" of multilateral trade negotiations can move forward toward reducing trade barriers and building better arrangements for managing international trade relations.

When this Committee met in February, concern had already been expressed about the problems of financing oil surpluses

226

and deficits and the ability of private financial markets to handle the anticipated vast flows of funds. More recently, difficulties of a few banks heavily involved in international transactions have magnified expressions of concern.

We recognize that the private markets face a serious challenge. But we should not exaggerate the difficulty. Let us not make allegations unsupported by facts. An individual bank, through imprudence or other management problems particular to the firm, can certainly get into trouble. But that does not imply any impending failure of financial markets generally or of the monetary system.

Certainly there will be strains in the face of the major challenges posed for the markets. In my talks with the Finance Ministers of other countries, we have frankly recognized this prospect. And we are confident that we can develop mechanisms to deal with these strains.

I do not, however, classify as real the problem of potentially massive shifts of funds -- the worry that oil monies will be capriciously shifted from one market to another thereby disrupting the foreign exchange and financial markets. In part this is because investments by the oil producing countries will be in instruments of varying degrees of liquidity, some of which -- probably a growing proportion --

could not be liquidated without losses that would make such shifts unattractive. Beyond this, massive shifts of funds would cause pressures on exchange rates, also quickly making such transfers unprofitable. I can assure you my experience has been that the financial authorities of the Arab countries who will be managing oil revenues are indeed conservative and responsible and will not be found taking illogical actions.

The private financial markets are in fact making substantial progress in adapting to the problems of oil financing. In the first instance, bankers have initiated discussion of the problems, such as rapidly growing liabilities relative to their capital base, excessive divergence in the maturity preference of lenders and borrowers, and too much concentration on particular lenders and borrowers.

And they are adapting their own practices. In a market saturated by offers of short-term funds, banks are insisting on paying lower rates for monies in maturities they don't need. We are seeing banks acting as brokers, arranging direct placements. These are necessary, encouraging responses.

The lenders, too, are adapting. They are looking for other places to put money: government securities; advance

224

payments for imports; phased loans to governments; credits to nationalized industries and corporate borrowers; real estate; and equity of large corporations. These shifts of funds into non-banking channels will ease the pressures on the banks.

In these circumstances bankers must continue to look for new techniques, new channels of moving funds to those who need them. Some traditional practices may have to be re-examined. Management must above all be prudent and careful. But there is no reason why the banking system cannot continue to handle a very large share of these funds while the remainder move through other channels.

I am asked what the role of governments and central banks is in this situation. Certainly they must maintain a proper economic environment, by containing inflation and following suitable policies. But that is not their only duty. I do not believe that the private sector alone should carry the responsibility. Governments and central banks as bank supervisors and suppliers of liquidity -- their traditional role in developed financial systems -- have a clear responsibility to assure the soundness of the system as a whole. I am referring to problems of liquidity, however, not solvency. It is not the role of the public authorities to underwrite management of an individual institution or to assume the risks of its stockholders.

There will also be occasions when direct government-to-government handling of funds will be the most efficient method. Over the years, the Treasury Department has issued special securities to various countries, including particularly large amounts to Germany. Inevitably, special responsibility must be assumed by governments of the oil exporting countries, and they are already beginning to provide direct loans and other types of financing for, and investments in, the economies of their oil customers. Iran alone has in recent weeks agreed to make substantial loans to France and the U.K. and made a substantial investment in the Krupp concern in Germany.

Governments' most urgent task -- one for which the private markets are largely inappropriate -- is to organize assistance for the poorest countries most seriously affected by the oil price increases so that severe hardships are not wrought on their populations. The new Development Council recommended by the Committee of Twenty will urgently address this problem. Public responsibility has also been recognized in the establishment of a special oil facility in the International Monetary Fund to supplement private markets -- a kind of "safety net" for countries able to afford its near-market terms but unable to obtain adequate financing through the private markets. We have also expanded our extensive network of inter-government swap agreements.

222

However, the objective of public policy should not be to take over the basic role the private markets have traditionally played in moving funds about the world. Rather governments should seek to strengthen that role, as the United States did early this year when we removed our capital controls.

We are fortunate to be able to approach the problems we face today within the framework of the monetary agreement reached at the Committee of Twenty Ministerial meeting in June. That agreement represented a landmark in our efforts to reform the international monetary system. Certainly much remains to be done, and further negotiations lie ahead. But the international community has responded in a constructive manner to the challenges it faces. One of the most important results of the C-20 work was that it demonstrated both our determination and ability to work cooperatively in dealing with our problems. This spirit is essential to the success of our future efforts. I have had useful discussions with my counterparts in other countries and am confident that a solid foundation exists for our continuing to work together.

I believe, too, that the flexible exchange rate arrangements presently in place have served us well in a particularly difficult period. Despite the great uncertainties we have been through, speculative pressures have not been excessive and exchange rates fluctuations have not been extreme. The dollar, following a rather large swing from the middle of last year to the first quarter of this year, has subsequently moved against the trade-weighted average of other currencies within a range of plus or minus 2 percent around the levels prevailing following the realignments of February 1973.

I had an opportunity on my trip last month to discuss the oil financing problems with Middle Eastern and European leaders. The authorities of the oil producing countries with whom I spoke displayed a keen awareness of their interest in and responsibility for assuring that their vastly increased oil revenues will be invested in a way that minimizes disruptions to world economic and financial relationships. I am glad to report that the atmosphere I encountered in Europe on the question of re-cycling oil revenues was one of concern but basically consistent with our own views. It was generally agreed that we should broaden our exchange of information and ideas on developments in the financial markets. We must have contingency plans, so that we are prepared to act, and to act quickly, in the event an emergency situation requires it.

224
223

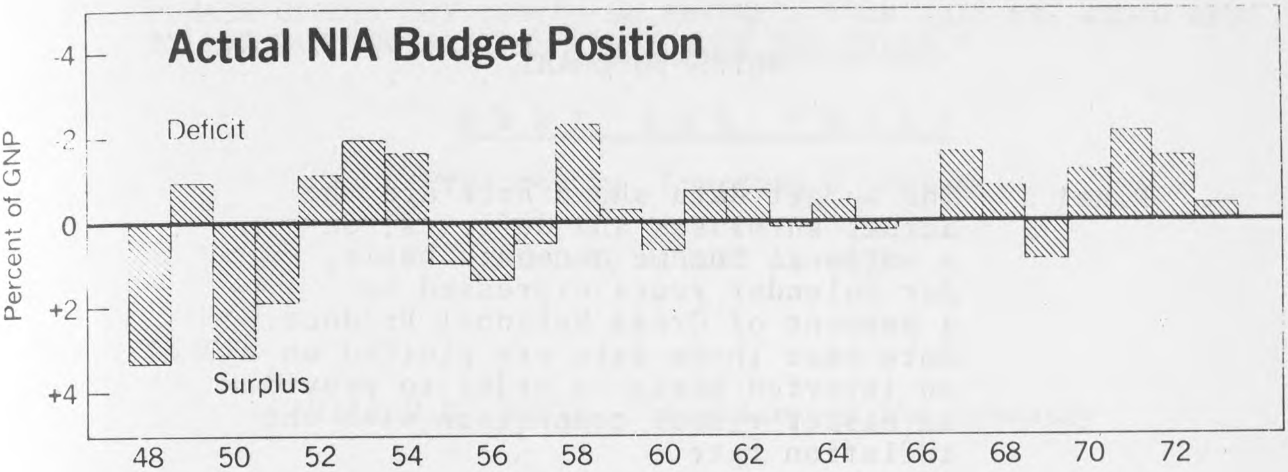
Mr. Chairman, a great deal of what I have spoken to you about today is related directly or indirectly to the question of oil prices. As you know, it is my conviction that we will see lower oil prices. I am convinced this is in the long-run interest of producers as well as consumers. I know of no single move more important to the elimination of world-wide inflation and the maintenance of international financial stability.

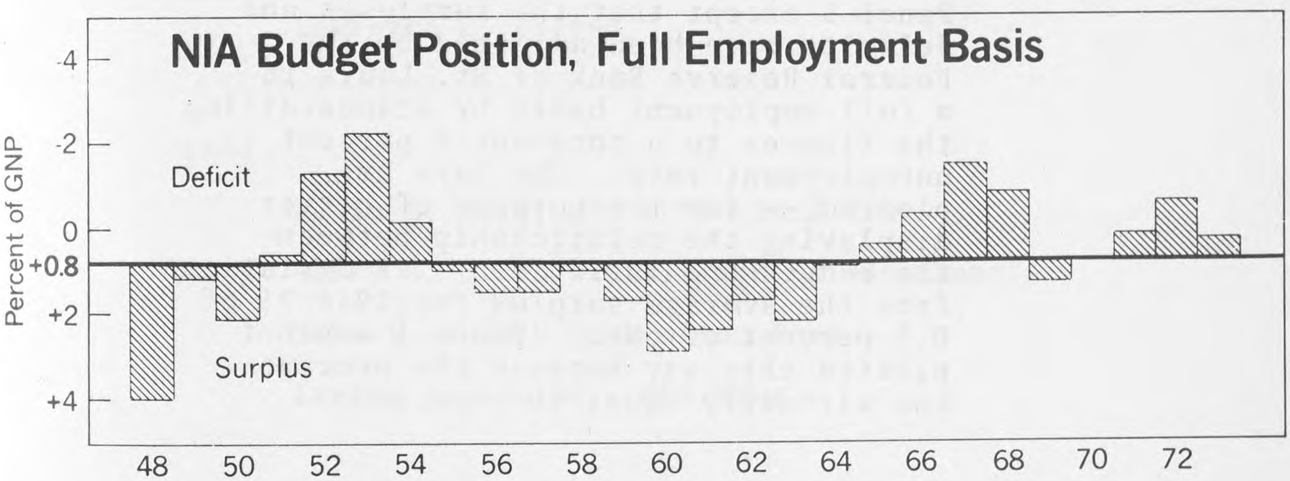
It would be a disservice to underestimate the tenacity with which we shall have to attack our present problems. I am confident, though, that we are on the right track, that the policies being followed nationally and internationally are the policies which will in time bring solutions to our problems. Inflation will abate. We will avoid the extremes of depression and financial collapse. We will find a new equilibrium in the commodity markets.

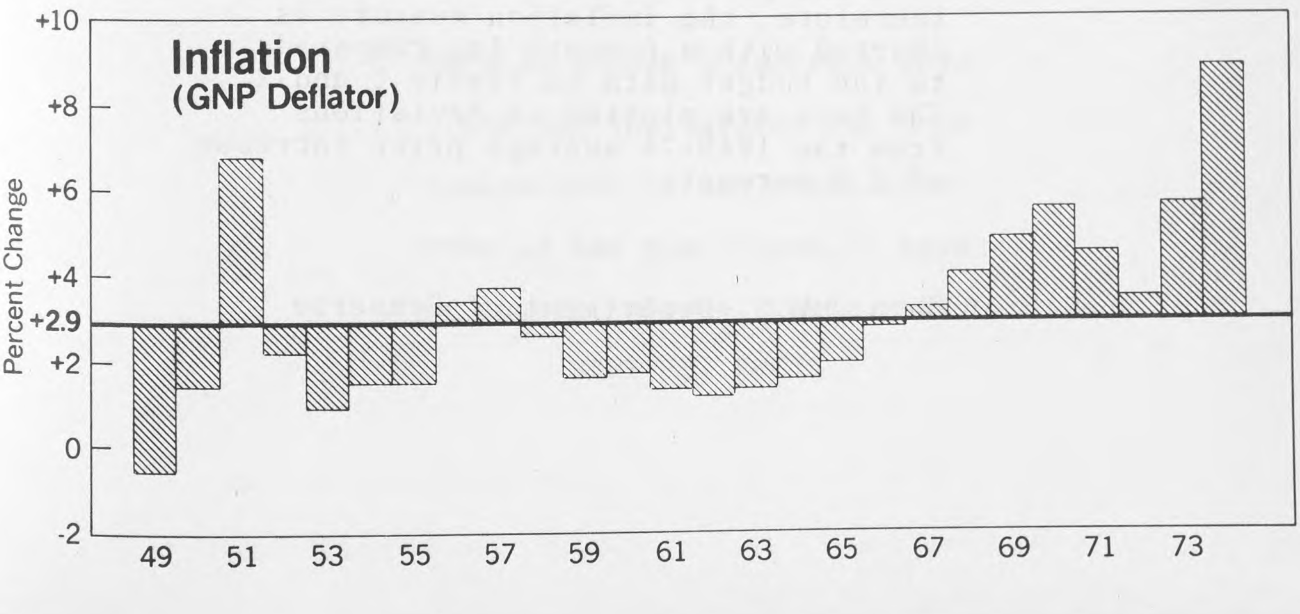
To achieve these goals here in the United States, the most important single action we can take is to regain control of Federal spending. To this end, close, cooperative, and bi-partisan action will be required. This Committee could make a significant contribution by encouraging a prompt activation of the new and stronger procedures for budget control provided in the Congressional Budget Act of 1974. Without determined action by both the Administration and the Congress, the rise in Federal outlays this year and next could be so large as to impose sustained rapid inflation on the American people. To prevent that result is our most important duty as public officials.

220

THE BUDGET AND INFLATION







NOTES TO CHART

Panel 1 The budget data shown here are the actual surpluses and deficits, on a national income accounts basis, for calendar years expressed as a percent of Gross National Product. Note that these data are plotted on an inverted basis in order to provide an easier visual comparison with the inflation rate.

Panel 2 These budget data are the same as in Panel 1 except that the surpluses and deficits have been adjusted by the Federal Reserve Bank of St. Louis to a full-employment basis by standardizing the figures to a constant 4 percent unemployment rate. The bars are plotted -- for the purpose of better displaying the relationship between the budget and inflation -- as deviations from the average surplus for 1948-73 of 0.8 percent of GNP. (Panel 1 was not plotted this way because the average was virtually equal to zero.)

Panel 3 Inflation is represented here by percent changes in the GNP deflator from the previous year. In effect, therefore, the inflation measure is charted with a 6-month lag compared to the budget data in Panels 1 and 2. The bars are plotted as deviations from the 1949-74 average price increase of 2.9 percent.

Source of data: U.S. Department of Commerce

Removal Notice

FRASER

The item identified below has been removed in accordance with FRASER's policy on handling sensitive information in digitization projects due to

Citation Information

Document Type:

Number of Pages Removed:

Author(s):

Title:

Date:

Journal:

Volume:

Page(s):

URL:

Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

235

FOR RELEASE 6:30 P.M.

August 5, 1974

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.7 billion of 13-week Treasury bills and for $2.0 billion of 26-week Treasury bills, both series to be issued on August 8, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing November 7, 1974		26-week bills maturing February 6, 1975	
	Price	Equivalent Annual Rate	Price	Equivalent Annual Rate
High	98.091	7.552%	95.637 a/	8.630%
Low	97.813	8.652%	95.601	8.701%
Average	97.850	8.505% 1/	95.622	8.660% 1/

a/ Excepting 5 tenders totaling $50,000

Tenders at the low price for the 13-week bills were allotted 7%.
Tenders at the low price for the 26-week bills were allotted 85%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 45,290,000	$ 35,290,000	$ 31,845,000	$ 18,015,000
New York	3,049,570,000	2,203,570,000	3,655,575,000	1,554,505,000
Philadelphia	30,580,000	30,580,000	44,675,000	14,430,000
Cleveland	41,875,000	41,725,000	55,580,000	29,880,000
Richmond	43,730,000	31,730,000	90,415,000	23,090,000
Atlanta	37,665,000	37,665,000	43,160,000	24,510,000
Chicago	145,550,000	89,550,000	319,305,000	206,875,000
St. Louis	43,450,000	37,320,000	58,240,000	25,040,000
Minneapolis	10,980,000	10,980,000	10,395,000	2,395,000
Kansas City	34,350,000	34,000,000	26,800,000	26,170,000
Dallas	31,545,000	24,545,000	39,955,000	15,955,000
San Francisco	148,425,000	123,415,000	219,310,000	60,010,000
TOTALS	$3,663,010,000	$2,700,370,000 b/	$4,595,255,000	$2,000,875,000 c/

b/ Includes $418,060,000 noncompetitive tenders accepted at average price.
c/ Includes $282,775,000 noncompetitive tenders accepted at average price.
1/ These rates are on a bank-discount basis. The equivalent coupon-issue yields are 8.81% for the 13-week bills, and 9.18% for the 26-week bills.

Department of the TREASURY
OFFICE OF REVENUE SHARING
WASHINGTON, D.C. 20226
NEWS
TELEPHONE 634-5248

236

FOR IMMEDIATE RELEASE
August 7, 1974

OFFICE OF REVENUE SHARING
ISSUES CUMULATIVE PAYMENTS
LIST FOR ALL RECIPIENT GOVERNMENTS

Who has received how much general revenue sharing money since 1972 is reported in a new reference document being issued today by the Treasury Department's Office of Revenue Sharing. Fiscal year 1975 allocations of funds for more than 38,000 recipient units of government are listed and totalled as well.

The amounts are presented in such a way as to enable the reader to compare amounts by jurisdiction from one payment period to another.

"From the beginning of the general revenue sharing program, it has been our practice to publish all data, payment amounts, and descriptions of procedures for public use and review," Graham W. Watt, Director of the Office of Revenue Sharing, said in releasing today's publication.

"This is part of our ongoing effort to keep the public fully informed about all aspects of this new approach to intergovernmental fiscal assistance," he said.

(Over)

Today's publication is entitled "Payment Summary: Entitlement Periods 1 thru 4 with Period 5 Adjustment". Copies may be obtained from the Government Printing Office. Reference copies are available in the Treasury Department's Library and in the Office of Revenue Sharing at 1900 Pennsylvania Avenue, N.W , Washington, D. C.

The figures published include any adjustments to initial allocations that were made at the end of each of the first four entitlement periods as a result of improvements to the data used to calculate individual governments' amounts. Each year, the Office of Revenue Sharing invites each recipient government to review and propose improvements to its own data on population, per capita income and tax effort. These numbers are used to allocate shared revenues for all governments.

Through general revenue sharing, some $14.3 billion have already been distributed to general-purpose units of state and local government: states, counties, cities, towns, townships, Indian tribes and Alaskan native villages.

The State and Local Fiscal Assistance Act of 1972 (P.L. 92-512) authorizes the distribution of $30.2 billion over five years ending in December 1976.

237

PRESS CONFERENCE: MR. GERALD L. PARSKY

Subject: Secretary William Simon's recent trip to the Middle East and technical and economic cooperation with the government of Saudi Arabia.

Treasury Building, Washington, D.C.

Thursday, August 1, 1974

U.S. DEPARTMENT OF THE TREASURY

GERALD L. PARSKY: ...Well, I thought that it would be useful to give you a broad overview of what took place during my stay in Saudi Arabia. As most of you know, I was with Bill in the initial stages until we hit Saudi Arabia, and then I stayed behind to supervise the working group effort as part of the joint commission. I'll be glad to try to answer any questions about any other aspects of the trip, if you'd like. I'd be glad to try to answer any questions about the trip prior to Saudi Arabia. And I was in close touch with Bill afterwards. But I thought it'd be good to focus on what happened in Saudi Arabia and then talk a little bit about what's to come.

First of all, we had what I thought were very successful sessions. I think it's important to recognize that these were the initial stages of our ongoing economic, bilateral economic relationship with Saudi Arabia. They were very hospitable to all of us there. They were looking for -- I think they were questioning exactly what would take place. They're looking to the U. S. government for help and leadership. They're very much interested in diversifying their economy as quickly as they possibly can.

We held two working group sessions, one on industrialization, one on manpower and education, with representatives from State, Commerce. Agriculture was there for a short period of time, and several other agencies. And we discussed a lot of different things, all of which I'll go into. But, concretely, we've agreed to do a number of things.

With respect to industrialization, we have jointly agreed to negotiate and sign a technical cooperation agreement which will facilitate the continual exchange of experts over a period of time on a reimbursable basis. The Saudi Arabian government would reimburse for the expenses of such experts. Second, we have reached agreement to provide what I would call a permanent U. S. government representation in Saudi Arabia as part of the joint commission effort. By this, I mean that the Saudis have agreed to have us staff, as part of the commission office in Saudi Arabia, probably from seven to ten people on a permanent basis, to be selected in conjunction with Ambassador Aikens and the Embassy there, but this would be located in Riyadh and it would have Saudi counterparts there.

Third, we have agreed to assign and send a certain number of experts, under the auspices of the commission, to various agencies there to study and work with them on ways in which they can improve their governmental and other machinery. Just to diverge for one second, I think you can see

239

the approach that we've taken in kind of stages. I think that there're ways in which the U. S. government can assist in in improving the machinery that makes diversification and industrialization easier for Saudi Arabia. We can assist them in mobilizing the private sector, which we've agreed to do, and in other investment. And it's with respect to that first one that during August we are going to be sending experts in the following areas. Probably two will go to take a look at the statistical base and industrial information and documentation capability. They'll be detailed to the Industrial Studies and Development Center in Saudi Arabia.

One of the things I might say that is of particular interest to them in which they, I don't feel, have an adequate capacity for as yet -- and that's developing statistical information as to their marketability and market shares for various industrial projects that they would undertake. This would be part of it.

We will be sending probably one person to advise on the improvement of port management. And he'll be detailed to the Ministry of Communications and work with the Ministry of Communications. An expert to evaluate existing conditions and advise on the improvement of customs' procedures. And he will work with the Ministry of Finance. An expert to evaluate and assist in establishing environmental and pollution standards, and he'll work with PETROMIN. They were particularly interested in this in conjunction with a series of projects which they have underway in the hydrocarbon area. All that will take place in August, and I'm actively kind of putting together this group that will be sent there sometime during this month to spend anywhere from two to three weeks, I would say, depending on how long the task would be, to determine -- to map out a program for what needs to be done in each of these areas, including the kind of assistance, longer-term, that will be needed.

During September, we will be sending additional experts there to work on improving standards for industrial construction. I think that one of the industries that is of particular concern to us and to the Saudis is the construction industry, because so much of their industrialization process is tied to that.

Also, someone, or people, to advise on the development of marine fisheries; also to advise on the establishment of international standards for protection of patents and copyrights. And by that, there is some concern that the private sector back here in the United States would be reluctant to entertain relationships there unless there was a means of assuring this protection. And so they would like someone to come over there and work with them.

And, finally, we would also be sending people there, or a person there, to advise on the improvement of the communications facilities.

Those are in the months of August and September having to do, as I say, with the overall advice in working with the Saudis on improving really the machinery, the internal governmental machinery to make the industrialization

240

process easier.

We have also agreed to encourage, mobilize, assist the Saudis in encouraging the U. S. private sector to participate in a variety of different joint ventures and other projects in Saudi Arabia. And this involves both projects having to do with the hydrocarbon and related industries and the non-hydrocarbon industries. To give you a rough estimate of the size of the potential investments in there, in these two areas, over the next, say, ten years in the hydrocarbon industry, they discussed with me a potential total investment of around seventeen billion dollars. In the non-hydrocarbon industry over the next five years, about one-half a billion dollars, about five hundred -- four hundred to five hundred million dollars. But what I've agreed to do is to come back to the United States and discuss with industry, in conjunction with all of the government capabilities, projects in both these areas.

Now, they told me that there is considerable interest already in the hydrocarbon area. They have a series of ongoing negotiations, ranging from a contractual arrangement for an iron and steel industry to letters of intent, feasibility studies and pre-feasibility stages in the hydrocarbon area. And my concern is as much, if not more, in the non-hydrocarbon area where there has been less interest by the U. S. private sector. And to give you some examples of the non-hydrocarbon area that they're thinking about is manufacturing of food and beverages, textiles, leather products, wood nd wood products, paper and paper products and chemicals.

Now, I think it's important to bear in mind that they are particularly interested in getting the private sector involved in these non-hydrocarbon areas. And I would propose to call together various representatives from these industries and try to explain to them some of the interests they have.

Next, we talked about how we could assist them in building their infrastructure and, in particular, the infrastructure that will be called for if a number of these industrialization projects materialize. And an idea that we came up with that I discussed with them, which they liked and which I will discuss back here, is the possibility of greater utilization of the Corps of Engineers. And I'm going to be talking about the possibility, through the Corps or through other governmental means, of expanding the role of what the U. S. government can do in building, or assisting them in building their infrastructure projects related to the industrialization programs which they will undertake. This would be a much more direct governmental involvement I think than with respect to mobilizing the private sector.

Next, we will -- the Saudis have agreed to send to us sometime before October 1 -- and we haven't decided exactly when, but it'll probably be in September -- two representatives, one from the Ministry of Commerce and Industry and one from PETROMIN, to come to the United States and take a look at the whole fertilizer area, which is something that they're particularly interested in and I spent a lot of time discussing with them. They will isit and review the Tennessee Valley Authority operation, and we will talk o them about possible TVA assistance and other assistance.

And finally because I thought it was particularly important, We've agreed to hold another meeting of the working group on industrialization here in September, probably somewhere around the twentieth to twenty-fifth, in that range, although the definite date hasn't been finalized, to not only follow up on a number of these projects; but, in particular, I would like to focus these meetings on our private sector and the relationship between that private sector and the industrialization process. I would envision the possibility of including one or two of the sessions that we would be holding and involve the private sector in those sessions in a coordinated way. Selective industries would participate; they would hear directly from the Saudis on their interests with respect to those industries, and questions that the private sector may have in terms of the kind of relationships would be raised.

Okay, that's briefly how I would outline the industrialization action, series of actions that were taken. As I say, there's a lot more. I don't want to take it all up by just talking. I'll try to answer any questions.

On the manpower and education just briefly, we again took a series of what I would call short-term actions. During August, we're going to provide experts, as follows. Three will be detailed to the Ministry of Labor and Technical Education Department within the Ministry of Education to evaluate current vocational training capability, including on-the-job training, and to develop a proposal for establishing technical assistance for additional training programs. The whole area of vocational training is of central concern here, and we think it's worth having some people go out right away.

During September we will send five additional, approximately five additional people to work with the Ministry of Education, to take a look at the whole educational system and to recommend to us a full assistance project to improve that whole system. We spent a lot of time discussing how that system functions now, and I thought it would be useful to have a full team spend two weeks, three weeks. [It'll] probably take as much as four weeks to do.

During September, the Saudis are going to send representatives to the United States to participate in programs arranged through the Department of Labor in the fields of government-employee training, which they expressed an interest in, and petrochemicals. And in addition, we agreed to come back here to the United States and to assist them by mobilizing or coordinating U. S. resources in several priority areas: one, access of Saudi students to U. S. educational facilities. Particularly, they're interested in law and medicine, including medical internships. Institutional development for Saudi universities and colleges, particularly in the business administration area, which is something they talked to us a lot about. Third, professional recruitment and exchange, including the whole concept of visiting professorships, which they would like to encourage and want us to work with a series of institutions through HEW, in particular. They're particularly interested in establishment of junior colleges and asked us to consider that a priority item back here, to recommend to them how that can be done, particularly utilizing existing institutions. And finally, we agreed to come back and take a look at how we would recommend, directly, that they develop a technical level training program in the petrochemical field.

Finally, I'd say that with respect to manpower and education, one area that I think is probably the most important that isn't reflected in everything I just said -- I believe that there's a great need in Saudi Arabia for a manpower training organization, entity. We talked about several possibilities. One is making use of what is currently in existence, a high committee on manpower. Second would be to utilize the central planning organization, which does have some capacity. And third is to create a new organization. I recommended that a new organization, a new entity be created. And they asked me to put together a complete memorandum or suggestion for the creation of such an organization, which potentially could be staffed by U. S. government and private sector people. But eventually the whole objective would be to turn this operation over to the Saudis. There's no question in my mind that there's a great need for manpower training in that country. They're interested in it, and before I left they indicated to me that they welcomed this kind of proposal. There are some difficulties in terms of various responsibilities in the manpower area that currently exist. But they welcome that.

That's kind of a sketch of where the sessions came out. I'm sure you've got a lot of questions. And I could, you know, talk a lot, but why don't we just start and then I can expand on about any of the other things. I'll be glad to try to answer any questions.

Q: Jerry, did you get any idea of how many -- what kind of capacities in refining and petrochemicals they're thinking of in Saudi Arabia?

PARSKY: They indicated to me that in terms of refining capacity that they would -- they would think -- they would set as a target anywhere up to fifty percent of current production as what they are able to, or would be able to refine. Current production is eight and a half million barrels. So in terms of their refining capacity there, they would think that it's not out of the question to think in terms of a refining capacity of half that, but over a longer period of time. We're talking now of ten, twelve, as much as fifteen years from now, but looking at current capacity.

In terms of the petrochemical area, they didn't give me any idea in terms of capacity, other than to say that they -- that that's a particular industry that they want to look at. They're not about -- they don't want to go into it until they fully understand the requirements in terms of manpower, in terms of investment. And so I couldn't really give you an estimate on that.

Q: Jerry, the stuff that you just outlined here -- I wonder if you could talk for a minute about our self-interest in this. Why are we doing this?

PARSKY: Well...

Q: What's in it for the U. S.?

PARSKY: Well, I believe, Greg, that there is a great deal that economic cooperation, direct economic cooperation between Saudi Arabia and the United States can do toward assisting in bringing a lasting peace in the Middle East. Many people have viewed peace as a prerequisite for economic

243

cooperation. And there's no question in my mind that in order to maintain this emphasis, in order to maintain some of the things we've become that peace will have to come about.

But I like to look at economic cooperation as a means of assisting in bringing a lasting peace. And so I think that not only the United States, but the whole world, is to gain if that happens. So I think that's a plus.

I think that there's no question in my mind that economic development, economic cooperation, a diversification of that economy is obviously not unrelated to energy policy, which obviously came up in the discussions, but wasn't a focal point, and investment, which many people have talked about. We were there focusing on what the U. S. government could do to assist in this industrialization process. But there's no question that, in my mind, it ties closely together with a whole world policy toward energy, toward investment, toward foreign -- toward world peace.

Q: Jerry, can you outline for us whether there were any agreements or any understanding as far as investment in the United States is concerned?

PARSKY: No, not that I can outline. There were none. No. And I spoke to Jack Bennett, and he told me that he went through pretty much at length in yesterday's briefing -- is that right? -- about the discussions that we had on investment. There was no understanding at all in terms of any sort of agreement. We did make a proposal, illustrative proposal on the potential investment from Saudi Arabia in special Treasury securities. No decision was made by the time that I had left. But as I think Jack indicated yesterday, there was -- we left with the idea that a decision would come shortly on what they wanted to do.

So to answer your question directly, no decisions. We responded really to a request on their part in terms of presenting a bill outlined before the trip, that it was going to be part of the discussion. But, no, we didn't come away with any agreement.

[Confusion of voices.]

Q: ...soon, Jerry, on what they may be interested in -- investment in the United States?

PARSKY: Yes.

Q: Was there any discussion about security for U. S. investments there against nationalization?

PARSKY: We did talk about utilization of OPIC. And they asked for more information on that, and I agreed to provide that. I should have mentioned that as part of it. That is the only discussion that can in any way be related to that. Other than that, none.

Q: Jerry, were you able to affirm the report on their oil auction as to when it will be, how much production, for what length of time?

244

PARSKY: Well, I had a series of follow-up discussions after the working groups with Abul Haal (?), Minister Abul Haal, Yamani, Fahd, Musad (?). And I came away feeling that the decision on the size of the auction -- I came away feeling there would be an auction, but it was no more than what you had been told when I was there.

Q: Well, you saw the reports by the Mideast Economic Survey out of Beirut...

PARSKY: A million and a half barrels. Is that what they said?

Q: For sixteen months.

PARSKY: Well, it was clear to me that there are a number of discussions that are going on, both internally and externally. People are making presentations or arguments both ways in terms of whether there should be an auction or shouldn't be an auction and the size of it. I was not given any concrete information at all from anyone as to the size of the auction and I was not given a 1.5 number at all. They did ask my views on energy issues briefly, and I gave them those views. But I came away not knowing. I did come away feeling that it was a decision that was coming pretty shortly, though.

Q: Well, Yamani said there would definitely be an auction sometime in August.

PARSKY: He told me that too, but the size of the auction was very much uncertain when I left. And so I think that the 1.5 is, you know, a little premature in terms of when I left now. And I haven't seen anything since then.

Q: Would you doubt that?

PARSKY: Would I doubt that it would be 1.5? No, I think 1.5 is certainly a possibility, but I think it's also possible that it could be considerably less than that.

[Question inaudible.]

PARSKY: Well, Saudi Arabia doesn't have total control over what the price is going to be. And besides, we don't know what the bids are going to be. When you have an auction, what it does is it makes -- it brings the price back to the marketplace, so to speak. But if the bids are high, that's not going to have any impact at all on price.

Q: Did you get any indication whether it would be new oil or from current production?

PARSKY: That's a good question, and I did not. Did not.

Q: Jerry, isn't there some sort of a link between our assistance for Saudi Arabia in helping them to industrialize and build the infrastructure?

245

Isn't there a link between that and their potential oil production, whether they're going to keep producing at current levels? Yamani told us in the interview that one of the conditions for continuing production to meet world needs was that they would be able to use their money, their oil wealth productively. And isn't this part of that whole scheme to find ways for them to invest their money productively? And if we don't there's a danger of cutback in production?

PARSKY: Well, I don't see -- first of all, I don't see that -- we did not place any conditions whatsoever. We did not discuss production, energy in any way tied to the economic development issues and cooperation that we've undertaken. Part of the industrialization process will be a determination of how much money the Saudis will have to be spending internally and how much they will have to spend externally. And that is a variable at this point in time and it's a concern that they have, because, depending on the priorities they set and the projects they put into place and the kind of investment that may or may not come externally, that will determine how much they can utilize internally, how much they can invest elsewhere and then, in turn, how much revenues will be required by their entire budget.

But I don't really place any -- I don't like to look at the economic development process that we have undertaken as in any way conditioned to or in any way dependent on, or it being a sine qua non of energy production.

Q: But isn't it in our interests to help them invest as much money as they can, to find ways for them to spend the money, as much as they can?

PARSKY: Obviously. I think the answer to that is yes, both internally and externally.

Q: Yes, right.

PARSKY: Yes. And to that extent, I would agree with you. I would say that to the extent that they have -- can utilize those resources, I think that that is an answer to the question "should production be increased?" But production levels should be increased and prices really should come down for reasons other than just Saudi Arabia, as well. The impact that it has on other countries, the response that we will get worldwide are also reasons.

But you're right. If we can -- if they see adequate investment for the money that they will be deriving from increased production, internally and externally, that will be an impetus to increase production. There's not question about that.

Q: Sir, did you discuss credits and any method of payment...?

PARSKY: No. We talked a little bit. We did talk about one...

Q: [Inaudible]

PARSKY: Will they?

244

Q: Yes.

PARSKY: I don't know whether -- I wouldn't anticipate that they would. But what they are concerned about are the conditions that the American companies may or may not be looking to them for in terms of investment. For instance, if the American company wants to make an investment in Saudi Arabia, are they going to want to make the total investment themselves, are they going to be seeking loans directly from the government and under what terms? It's with respect to those kinds of conditions that I would like to spend some time with the private sector here. And when the group meets in September, I'd like these issues to be raised at this point.

They indicated to me that there were some discussions that had been undertaken already with the Saudis on projects more in the hydrocarbon area where conditions on the repayment were pretty stiff. For instance, interest-free loans for a period of time. And I think that that is a concern that they have, that they would like the industrialization process to take place, but they would like the climate to be such there, in terms of the U. S. private sector or any other investor, that they're not going to be requiring the Saudi government to totally undertake the financial responsibility for all these projects.

Q: Jerry, to the extent that U. S. investment flows go to Saudi Arabia without compensating returns, if they don't put up a lot of the money up front, aren't we going to be exacerbating our balance of payments?

PARSKY: Well, there's no question that some of the money will have to be put there in the beginning. But the question is, is repayment contemplated? Are we talking about, you know, underwriting the projects themselves, or are we really talking about assisting in the industrialization process where it would eventually be repaid and at what interest rate? That's more of the concern, I think, than the initial percentage up front.

Q: Jerry, we're told that there're literally hundreds, maybe even thousands of proposals. When you've got that many billions of dollars, an awful lot of people are interested in talking. Just how close are they to being in a position to evaluate these proposals and how close are they to actually beginning to spend some of this seventeen billion you mentioned over the next ten years on hydrocarbon and related projects and the half billion in the next five years on the non-hydrocarbon related...?

PARSKY: Well, I think that they would like our assistance in developing the proper capacity for making -- more for making attractive presentations in the non-hydrocarbon area. They have got a lot of proposals in the hydrocarbon area. They are at a point where they're willing to spend the money. They've only got one iron and steel project under contract right now in the hydrocarbon area or related area. But they have a series of other projects on the board, so to speak, with various companies.

I think that they are ready. But I think that part of the process will be supporting both PETROMIN and the Ministry of Commerce and Industry

247

.th ways in which to sort out, so to speak, a variety of different proposals that may be coming.

Q: Jerry, how much penetration of ownership in this country are we willing to tolerate by any single group of foreign nationals or any single government?

PARSKY: Well, the discussions that we had about any investment direct, direct investment, energy downstream, or other were such that we felt -- we just expressed our feeling that we would encourage it. We didn't place any -- we didn't focus at all on the idea of limiting possible investment. Bill has never said that we would set a certain limit in terms of how much investment you could or couldn't make.

So I don't know....

Q: Well, do you think there is a practical limit, from the political standpoint, a point at which people would begin to become alarmed?

PARSKY: Well, I think, you know, the Congress and the people will want to know the kind of foreign investment that is being made here directly. But at this point I don't envision -- I don't envision -- you know, I cannot envision for you, Burt, a point at which I would say, you know, sixty-one percent of "x" industry would be objectionable, and, therefore, .e would have to cut it off. I mean that's something I just wouldn't be .ble to do.

Q: How about a list of critical or strategic industries in which you would prefer to have no investment?

PARSKY: That's something that we haven't focused on at all.

Q: Why did you say just now that it might be less than a million and a half barrels a day that was offered at the auction?

PARSKY: Because I believe that there are forces, both within and outside of the Saudi government, that are arguing for less and that that's a possibility.

Q: You've got yourself a reputation worldwide and in this building for predicting a decline in oil prices. It hasn't really come. Can you see any concrete sign yet why oil prices should go down? Or rather -- I mean, or rather, any concrete sign that they are going to go down?

PARSKY: Well, right now there is an excess of supply of petroleum over demand in the range of about a million and a half to two million barrels. I believe that that surplus will diminish, assuming the current trends continue, by the winter, so that the surplus will not be as great. But I still think there will be a surplus. Market forces would indicate, naturally, that if surplus continues to exist in the world market and demand doesn't close .at gap to any great extent, or production doesn't close that gap, that the price will respond.

And so I think that the statements that we've made here have

248

indicated the fact that the world market forces would bring the price down. That's what I believe Bill has said. And I must say that I have not gotten any indication as yet, no indication on this trip that there were going to be any nonmarket forces that would bring the price down, other than the potential auction which would if bids on the auction were lower. But it's important to realize that an auction may not bring that price.

Q: Well, Jerry, wasn't there an indication in the Kuwaiti auction of a softening of prices, in that none of the bids were up to the Kuwaiti...?

PARSKY: Well, I think that's certainly an indication. But you have to recognize -- I mean you need a considerable impact on supply, on the amount that is paid in order for there to be a corresponding response in overall prices. I think that is indicative, but, you know, I don't think that's enough yet. And I do think that the supply gap will be narrower by then, but I think that this growing surplus is the reason really that we and Bill, in particular, has indicated that he felt the price would respond.

Q: Jerry, did the Saudis give you an indication as to when they intend to complete the take-over of ARAMCO?

PARSKY: No, the did not. They didn't indicate to me that -- all that they indicated to me was that they were continuing discussions and that they had -- and I would anticipate that there'd be a series of other discussions that would take place on the whole relationship between the industry and the government during August. Yamani will be there the entire month, except for three or four days.

Q: Jerry, one more question on the advancement issue. To what extent will Saudi or any other Arab investments be hazardous to the public? Do they plan to disclose all of them, or are there reporting requirements, or do you think that some of them may well be done through third parties, second parties...?

PARSKY: Well, with respect to any special issues, there would be the same disclosure as with respect to any other issue. We haven't indicated in the past any terms of any offer or of any such securities. But in terms of the amount, that is made available, as it is with other countries. And to the same extent, this is not any different. The proposal, or the illustrative proposal, as I said, is not any different than what has been undertaken with other countries.

Q: Exclude special securities, though, Jerry. What would happen if they were purchasing shares of stock in U. S. companies?

PARSKY: Oh, U. S. companies.

Q: Yes.

PARSKY: Well...

Q: Are there reporting requirements for that...

PARSKY: Yes.

249

Q: ...if they went through a third party?

PARSKY: Well, that wouldn't be governmental reporting as much as Securities Act and SEC reporting requirements that various companies would have in terms of shareholders. And to the extent that they would have to -- that that would be indicated by a third party, I don't -- I just don't know. But I do know that, for instance, when a U. S. corporation has to file periodic reports, and any ownership above I think ten percent has to be reflected directly in, you know, a periodic report to the SEC. And that is available to the public. So to the extent that that's the case, it would be. Nothing that the U. S. Treasury Department would do would, you know, increase that at all.

Q: Yes, but nominees are sometimes used in those reports...

PARSKY: Nominees, that's correct.

Q: Is the United States government going to try to achieve some kind of understanding with the Saudis that they won't use nominees to mask major positions in U. S. corporations?

PARSKY: We didn't discuss that with them at all.

Q: Jerry, were there any restrictions at all laid down on investment in the United States?

PARSKY: No.

Q: No restrictions?

PARSKY: The only investment discussions that we had were related to potential investment in U. S. Treasuries.

Q: You said you had an illustrative proposal. Can you illustrate that for us?

PARSKY: No, because it's...

Q: Why not?

PARSKY: Because it's been a policy here all along that proposals, illustrative or otherwise, the details of them are not. And Simon's, you know, has continued that position. So has Bennett. So I can't really, not even in terms of amount or in terms of, you know the characteristics.

Q: Jerry, I'm not sure I've got you quoted correctly here. Did you say in answer to a question by Burt a while ago that we expressed our feelings that we don't encourage investment by Saudis in our equity market?

PARSKY: No, that we do.

Q: We do.

250

PARSKY: We do encourage.

Q: How is the Corps of Engineers going to be used in Saudi Arabia?

PARSKY: Well, the Corps of Engineers are now used in Saudi Arabia in the defense related projects. Yes, and this would be civil. This would be on the other side in assisting, developing construction programs, assisting in the construction of a variety of different infrastructure projects.

Q: Jerry, are we going to be sending similar groups of experts to other oil producing countries?

PARSKY: Well, this was done under the auspices of a joint commission that has been set up. And we would -- unless there is another mechanism created in other countries. And I know that Bill's visit to Kuwait indicated that they were interested in economic cooperation. But nothing more, you know, has been advanced.

We do have a commission with Egypt, and we have undertaken a series of working groups with Egypt as well, which I will focus on now and determine how we are going to maintain that relationship. Similarly, we have agreed to set up a committee with Israel. And we will need to focus on how we're going to follow up with respect to that. And that's going to be done right away.

But other than those three countries at this point, I don't -- there's nothing concrete in terms of any sort of relationship like this.

Q: Would you expect that this spawn perhaps requests from other developing countries that are not oil producing countries for similar aid?

PARSKY: Well, I think that -- you know, I believe that much can be done in this kind of what Simon has referred to as soft aid as opposed to hard aid; soft aid being, you know, working on a technical expertise level, working, providing or assisting in developing relations with the private sector. I think a great deal can be done along those lines, but I think that many countries will want to see what results. I mean, you know, I think we've made an excellent first step. We need to really work at it though from here on, and it's going to take a lot of time and a lot of effort, and it's going to involve mobilizing the governmental and nongovernmental resources. I think that many other countries are going to look. And if they see results that they think are worthwhile, then I think their interest will be stimulated. I believe that it can provide that. I think that you've seen that that's the reason that this has developed the way it has.

Q: Jerry, did I understand you to say at the outset that we're charging for this assistance, we're being reimbursed for government assistance, as well as private?

PARSKY: No, the government assistance. During the month of August, we have undertaken to send technical experts at U. S. government

251

cost, pending the signing of a technical cooperation assistance agreement. What that agreement would do would be to provide for reimbursement of expenses for government experts and expertise to be provided to the Saudi government.

Q: How about private experts? Do we hire them?

PARSKY: I would contemplate the possibility of bringing private experts into this and on a reimbursable basis as well.

Q: What attitude did they take toward the Church subcommittee's idea that American oil companies ought to get government permission for the price which they agreed with the producer countries?

PARSKY: You want to know what I would think about that or what we ought to plan to do about it?

Q: I mean, do you think you can support it, or is it dangerous, or is it...?

PARSKY: Well, I don't know whether the administration has taken a position on that. But I would certainly oppose, you know, having the government place itself in the middle or become a part of the direct price negotiating process between the companies and the countries. But I don't know whether the administration has taken a position on it. I know Bill is going to testify before Church's subcommittee, I believe in a week, a week and a half. So I think if he's asked that question, I think you'll get the administration's [position].

Q: You aren't doing that now?

PARSKY: Pardon me.

Q: You're not doing that now?

PARSKY: No.

Q: Jerry, is John Dunlop going to be a link between the Treasury and the Saudis?

PARSKY: No. John Dunlop will serve as a Treasury consultant, but on domestic and economic issues and not on -- he is a consultant to the Saudi Arabian government and therefore cannot serve as a consultant to the Treasury on that matter. But the Saudis are aware that John is going to be working with us on other issues, and we're aware that he's serving as a consultant to them. But he won't be working with us on that at all.

Q: Two part question on the possibility of an embargo in the future again. In your second discussion with Yamani, did the subject of the possibility of re-imposing an oil embargo come up? And secondly, are you concerned about the possibility of an oil embargo being imposed in the future?

PARSKY: The answer to the first question is no, and the answer

252

to the second question is, at this point, I'm certainly not. Well, to say it didn't come up, I should back up a little bit. I indicated -- I did ask him if he asked the press, or he indicated to the press in a press conference that he held something about the embargo, and he indicated that he did in the context of "if Middle East peace did not come, the idea of an embargo was not, you know, inconceivable at all."

At this point, it was not raised to us at all. In no discussion was the suggestion of an embargo raised. And I just don't anticipate -- at this point, I don't see it as a real concern. You have to recognize as well as anybody else that all sides throughout our trip indicated a desire for a lasting peace. What exists now is a cease-fire. And so there's no question in my mind that without a lasting peace any number of things could happen. But there was no indication to me at all in any discussions while Bill was there or after that the embargo was a real possibility at this point.

Q: Jerry, would these efforts go forward if an embargo should be put back on again? Or if oil prices should remain where they are today, would they go on just as vigorously?

PARSKY: Well, you know, Bill, it's hard to say, if an embargo was imposed, whether or not we would be able to continue. I mean, I'm not sure they would want us to continue. It'd almost be inconsistent on their part.

So...

Q: [Inaudible.]

PARSKY: Well, in my mind, you know, I see this economic cooperation again as not dependent or definitely related to the price issue, because the price issue is not totally within the control of Saudi Arabia. And so I look at this economic cooperative effort as going on, you know, irrespective of what may happen in the short or intermediate term on prices. I'm certainly hopeful and I argue that it's in the best interests of Saudi Arabia and in the best interest of the world for prices to be lower and for production to be increased. But I don't use it as a condition on whether this effort is to go on.

Thank you.

MAN: Excuse me. We'll have transcripts of this available late this evening or early tomorrow morning, and there are transcripts of Jack Bennett's meeting yesterday at Room 2325.

Removal Notice

FRASER

The item identified below has been removed in accordance with FRASER's policy on handling sensitive information in digitization projects due to

Citation Information

Document Type:

Number of Pages Removed:

Author(s):

Title:

Date:

Journal:

Volume:

Page(s):

URL:

Removal Notice

FRASER

The item identified below has been removed in accordance with FRASER's policy on handling sensitive information in digitization projects due to

Citation Information

Document Type:

Number of Pages Removed:

Author(s):

Title:

Date:

Journal:

Volume:

Page(s):

URL:

Removal Notice

FRASER

The item identified below has been removed in accordance with FRASER's policy on handling sensitive information in digitization projects due to

Citation Information

Document Type:

Number of Pages Removed:

Author(s):

Title:

Date:

Journal:

Volume:

Page(s):

URL:

Removal Notice

FRASER

The item identified below has been removed in accordance with FRASER's policy on handling sensitive information in digitization projects due to

Citation Information

Document Type:

Number of Pages Removed:

Author(s):

Title:

Date:

Journal:

Volume:

Page(s):

URL:

Removal Notice

FRASER

The item identified below has been removed in accordance with FRASER's policy on handling sensitive information in digitization projects due to

Citation Information

Document Type:

Number of Pages Removed:

Author(s):

Title:

Date:

Journal:

Volume:

Page(s):

URL:

Removal Notice

FRASER

The item identified below has been removed in accordance with FRASER's policy on handling sensitive information in digitization projects due to

Citation Information

Document Type:

Number of Pages Removed:

Author(s):

Title:

Date:

Journal:

Volume:

Page(s):

URL:

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

271

August 6, 1974

MEMORANDUM TO THE PRESS:

In response to questions about published reports, Jack F. Bennett, Under Secretary for Monetary Affairs, today announced that Treasury had not reached agreement with any of the Middle Eastern countries for issuance of special Treasury debt securities.

oOo

WS-78

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

272

FOR IMMEDIATE RELEASE August 6, 1974

INDIVIDUALS CAUTIONED THEY MAY HAVE TO PAY
MORE OR LESS THAN MATURITY VALUE IN TREASURY AUCTION

All banks and dealers assisting in placing orders for the securities being auctioned by the Treasury today and tomorrow were requested by Jack F. Bennett, Under Secretary of the Treasury for Monetary Affairs, to make special efforts to explain to individuals purchasing these securities on a non-competitive basis that the result of the auction may require them to pay either more or less than $1,000 for each $1,000 of maturity value of the securities. As a result, the yield received by such investors may be either more or less than the 9% nominal interest rate on these securities, Bennett said.

oOo

WS-79

Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

273

FOR IMMEDIATE RELEASE August 6, 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 $4,800,000,000, or thereabouts, to be issued August 15, 1974, as follows:

91-day bills (to maturity date) in the amount of $2,800,000,000, or thereabouts, representing an additional amount of bills dated May 16, 1974, and to mature November 14, 1974 (CUSIP No. 912793 UY0), originally issued in the amount of $1,902,325,000, the additional and original bills to be freely interchangeable.

182-day bills for $2,000,000,000, or thereabouts, to be dated August 15, 1974, and to mature February 13, 1975 (CUSIP No. 912793 VV5).

The bills will be issued for cash and in exchange for Treasury bills maturing August 15, 1974, outstanding in the amount of $4,400,755,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,672,075,000. 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 in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value) and in book-entry form to designated bidders.

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Monday, August 12, 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 August 15, 1974, in cash or other immediately available funds or in a like face amount of Treasury bills maturing August 15, 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

274 August 6, 1974

NOTICE TO ASSIGNMENT EDITORS

For the first time in the history of our country coins honoring our Nation's Bicentennial will be struck at the Philadelphia Mint on Monday, August 12, 1974, at 11:00 a.m.

The first trial strikes of the new bicentennial dollar, half-dollar and quarter will be struck by Director of the Mint Mary Brooks and the three winners of the National Bicentennial Coin Design Competition.

The designers are:

Jack L. Ahr of Arlington Heights, Illinois, whose design of a colonial drummer boy will appear on the reverse of the quarter.

Seth G. Huntington of Minneapolis, Minnesota, whose design of Independence Hall will appear on the reverse of the half dollar.

Dennis R. Williams, a student at the Columbus College of Art and Design, Columbus, Ohio, whose design of the Liberty Bell and moon combination will appear on the reverse of the dollar.

The three, who each received $5,000 for his design, will be available for press interviews.

Because of the great public interest in the issuance of these coins, Director Brooks is inviting the news media to see the preliminary production process. Distribution plans for these coins will be announced at a later date.

Reporters and photographers interested in covering this historic event should contact the Bureau of the Mint's Washington, D. C. office -- AC 202 964-5011 or 2133, or the Superintendent of the Philadelphia Mint -- AC 215 597-2063.

-o0o-

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

275

FOR IMMEDIATE RELEASE August 7, 1974

RESULTS OF TREASURY NOTE AUCTION

The Treasury has accepted $2.25 billion of the $4.3 billion of tenders received from the public for the 33-month 9% notes auctioned yesterday. The range of accepted competitive bids was as follows:

	Price	Approximate Yield
High	101.28 1/	8.48%
Low	100.86	8.65%
Average	101.00	8.59%

1/ Excepting 7 tenders totaling $85,000

The $2.25 billion of accepted tenders includes 77 % of the amount of notes bid for at the low price, and $1.4 billion of noncompetitive tenders accepted at the average price.

In addition, $2.9 billion of the notes were allotted to Federal Reserve Banks and Government accounts at the average price, in exchange for notes maturing August 15.

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

274

FOR IMMEDIATE RELEASE August 8, 1974

RESULTS OF TREASURY NOTE AUCTION

The Treasury has accepted $1.75 billion of the $3.7 billion of tenders received from the public for the 6-year 9% notes auctioned yesterday. The range of accepted competitive bids was as follows:

	Price		Approximate Yield
High	101.50	1/	8.67%
Low	101.01		8.78%
Average	101.15		8.75%

1/ Excepting 6 tenders totaling $32,000

The $1.75 billion of accepted tenders includes 67 % 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, $2.5 billion of the notes were allotted to Federal Reserve Banks and Government accounts at the average price, in exchange for notes maturing August 15.

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

2-77

STATEMENT OF H. J. HINTGEN
COMMISSIONER OF THE PUBLIC DEBT
DEPARTMENT OF THE TREASURY
BEFORE THE SUB-COMMITTEE ON LEGAL AND MONETARY AFFAIRS
SUB-COMMITTEE OF THE HOUSE COMMITTEE ON GOVERNMENT OPERATIONS
RE TREASURY EFFORTS TO IMPLEMENT RECOMMENDATIONS CONTAINED IN
COMPTROLLER GENERAL'S REPORT ON SAVINGS BONDS HELD IN SAFEKEEPING
THURSDAY, AUGUST 8, 1974, AT 10 A.M.

Mr. Chairman and Members of the Sub-Committee:

It is a pleasure for me to appear here today to provide testimony concerning the efforts the Department of the Treasury has made to implement the recommendations contained in the Comptroller General's Report of August 10, 1973, entitled: "Unclaimed Savings Bonds Should Be Returned To Veterans And Other Individuals."

In this statement, Mr. Chairman, I should like to discuss the status of the Department's actions to centralize the record control and administration of the safekeeping program to which the GAO report pertained, and to provide current information as to our progress in attempting to locate the owners of the bonds held in safekeeping. Some of the information provided will be repetitious of the progress report that I submitted with my letter to you of July 10th. However, I am happy to have the opportunity to update and expand upon some phases of that report.

Originally the physical safekeeping of savings bonds was a function of the Office of the Treasurer of the United States and of the various Federal Reserve Banks, as fiscal agents. The safekeeping of bonds newly issued to the general public was discontinued in 1955. The safekeeping of bonds purchased by servicemen in the Army and Air Force was continued until 1968.

When safekeeping for the public was discontinued in 1955, consideration was given to initiating a program to require depositors to withdraw immediately bonds held in safekeeping. It was decided at the highest level of the Department not to take this action, in part because it was felt forced withdrawal would constitute a breach of faith with the depositors and in part because of the relative cost of such a program. I think it is important to bear in mind that this decision, like many others concerned with the safekeeping program, did not contemplate a 40-year Series E bond.

Following issuance of the Comptroller General's report, almost exactly a year ago, the Bureau of the Public Debt, of which I am the Commissioner, was designated as the Departmental agency to exercise responsibility for the central record control and administration of the safekeeping program. These actions have been taken since that time:

First, in a reorganization of the Fiscal Service, the securities functions of the Office of the Treasurer were transferred to the Bureau of the Public Debt. These functions included the safekeeping of savings bonds.

278

Second, as indicated in the report submitted with my letter of July 10th to the Chairman, the undeliverable bonds held by the Federal Reserve Banks for the general public have now been transferred to the Bureau's office in Parkersburg, West Virginia. I will subsequently discuss this in more detail.

The only sizeable segment of bonds not in the physical custody of the Bureau are some 167,000 bonds held for the account of servicemen -- or former servicemen -- by the Federal Reserve Bank of Chicago. No useful purpose would have been served by physically transferring these bonds to the Bureau before attempting to locate the bondowners and deliver the bonds. Since safekeeping is a fiscal agency function and not a Bank function, the bonds are subject to the direction and control of the Bureau. Ultimately those bonds which are determined to be undeliverable will also be transferred to the Parkersburg Office.

At the time of the GAO report the Federal Reserve Bank of Chicago held about 200,000 bonds for servicemen. These bonds had been deposited between 1941 and 1968. The other Federal Reserve Banks did not hold bonds for servicemen. Except for Cleveland, which held bonds for Navy personnel until the Navy itself took over the function, safekeeping in the Banks other than Chicago was confined to bonds belonging to the general public.

According to the Federal Reserve Bank of Chicago, withdrawals of servicemen's bonds have been occurring until recently at the rate of approximately 2,000 bonds a month. However, the latest report we have received indicates that withdrawals have tapered off. The July withdrawal totaled 1,276 bonds. Since the report, the total number of bonds held by the Reserve Bank has been reduced to 167,000, with a face amount of about $6-1/2 million.

I shall have occasion to refer to our efforts to solicit withdrawal of these bonds from safekeeping in a moment.

In addition to the bonds held for servicemen at Chicago, the Office of the Treasurer had in its possession some 80,000 such bonds. Of these, about 5,000 have been released. An additional 27,000 bonds were held for members of the Coast Guard and Peace Corps. About 19,000 bonds belonging to members of the Coast Guard on active duty, and 4,500 belonging to members of the Peace Corps, have also been withdrawn from our custody.

The GAO report recommended the desirability of taking affirmative action to return the bonds being held in safekeeping for veterans and others and toward that end the Department has examined various methods by which such return could be accomplished.

In the case of the bonds held for servicemen, there are major impediments in effecting their return. Many of the bonds show only a military address and because of the length of time that they have been in a safekeeping status, there is no easy way in which the present whereabouts of their owners can be ascertained. Accordingly, it was decided that a pilot project should be instituted, with the assistance of the Veterans Administration, to see whether the latter's records could provide a current address for the bondowners. For this purpose a selection of slightly more than 6,000 names was made from the files of the Treasury and the Federal Reserve Bank of Chicago. Except for a few bonds, all of them had inscribed the military serial number of the individual owner.

Although I am sure that representatives of the Veterans Administration can provide more explicit details as to the assistance that they have furnished us, it might be useful here to indicate that these names and serial numbers were to be run against various VA files to determine whether a current address could be located. My understanding is that since these records are not centralized, the examination had to go through several different processes. The principal active accounts to be examined were those relating to disability compensation and educational benefits, which are records maintained by the

Veterans Administration in Chicago, and those pertaining to insurance, maintained at Philadelphia and St. Paul.

Since my letter of July 10th to the Chairman, we have received and have had an opportunity to examine the information that the Veterans Administration has furnished us on this pilot study. There were 6,252 cases submitted to the VA for processing, 6,115 with names and service serial numbers and 137 with names only. The VA matched 1,310 cases with names and numbers and provided addresses to which letters could be sent. This was slightly more than 20% of the inquiries. In 3,799 cases there was an indication of an active or inactive record in a VA regional office. We understand that a further referral to these offices has been made. In 1,159 cases, or about 18-1/2%, there was no match. In another 8 cases there was a duplicate match on the name, and two addresses were furnished, but neither address could be verified with the service number. Altogether some 6,276 names were furnished, including some with more than one address.

In those cases in which addresses were secured, we have begun to mail letters and release forms. In order that there is no misunderstanding or disappointment, I should like to point out that we do not presently know just how recent the VA addresses are. It will be extremely helpful in our planning to have the results of our direct correspondence.

250

With reference to the 167,000 bonds that are held for servicemen at the Federal Reserve Bank of Chicago, that Bank, at our direction, is also initiating a direct contact program, using its last known addresses of record. There is more likelihood that these mailings will be fruitful because many of the bonds were issued as recently as the 1960's. We shall carefully monitor the results of this effort. Where the correspondence is returned as undeliverable, we shall undoubtedly utilize the assistance of the VA to seek a more current address. If a social security number is available or can be obtained, we will also use the facilities of the Internal Revenue Service.

I'd like to turn now from the bonds held for servicemen to the bonds held for the general public. At the time of the GAO report there were about 312,000 such bonds in safekeeping at the Federal Reserve Banks and 65,000 at the Treasury.

On August 30, 1973, the Federal Reserve Banks were directed to notify the depositors of these bonds, at their latest addresses of record, that safekeeping facilities would be terminated by direction of the Treasury, and that all bonds not withdrawn within two months from the date of notification would be forwarded to the Department to await further disposition. All of the Reserve Banks notified depositors. Some 15,150 letters were dispatched. About 180,000 bonds with a face value of $20,617,000 were thereafter delivered to depositors or persons entitled.

Action was also taken to notify non-service personnel who had deposited bonds directly with the Treasury. Some 5,800 letters were dispatched and, as a result, 20,500 bonds with a face value of $2,625,000 were withdrawn.

With some few exceptions involving bonds held under order of court or in Veterans Administration custodian cases, all of the bonds that were not delivered have been sent to our office at Parkersburg for microfilming, recordation and destruction. I would like to emphasize the fact that these bonds remain a part of the outstanding debt and their registration continues to be a matter of record. If the purchaser, or someone else who is entitled, submits safekeeping receipts or files a claim, either replacement bonds or a redemption check will be issued.

At the present time we have no program to deliver these bonds or their replacements to the owners. Over the years many of the Reserve Banks attempted to locate depositors either to remind them of the existence of the bonds or to confirm balances in connection with audits. New initiatives at this time do not hold much promise of success. The bonds do not show the social security numbers of the owners and this means that we can't effectively use the facilities of the Internal Revenue Service and Social Security Administration to obtain current addresses.

281

Let me assure the Sub-Committee that the Treasury is anxious to have all of these bonds returned to their rightful owners, or to persons who might be entitled to the owners' estates, as soon as possible. The desirability of doing so, however, must necessarily be qualified by the voluntary nature of the safekeeping arrangement, by the nominal amounts sometimes involved, and, perhaps more importantly, the costs that taxpayers generally must incur for our efforts in attempting to return the bonds.

Under the safekeeping arrangement, depositors were furnished with receipts which they were expected to submit at the time of withdrawal. No promise or representation was made that the Treasury would spontaneously return the bonds. Also, such action has been deemed by some as unnecessary as all of the bonds on deposit are continuing to earn interest. In other words, in many cases there has been no compelling need for bondowners to withdraw their securities.

In some of the correspondence we received following the publicity accompanying the issuance of the Comptroller General's report, depositors asked that we continue to hold their bonds in safekeeping, or otherwise indicated that their bonds were not forgotten. Nevertheless, I think in a good many cases the bonds have been forgotten, and I am concerned that unless some steps are taken to communicate with the owners, they will continue to be so.

I have just mentioned publicity as an aspect of this matter, and I should like to speak about that for just a moment. In general, the Department's experience over the years -- not simply in connection with the publicity that attended the report in this case -- has shown that from the standpoint "of the operation of Government activities *** with a view to determining its economy and efficiency" -- which are matters of your Committee's special conern, publicity is counter-productive. I say this not in criticism of the GAO report, but simply as a "Fact of Life". When articles about unclaimed Government securities are published, we have found that the publicity excites a great many persons who really have no sound basis for a claim to communicate with the Department. This creates an enormous back-log of correspondence and record-searching without providing the kind of return that the publicity was intended to secure. While it may be less newsworthy, a more systematic program of reaching bondowners, such as those we have devised, would seem to be a preferable approach. It permits us to maximize our limited resources to achieving the objective in view -- that of returning the bonds to their owners.

2818

Let me give you an example of the kind of problem with which we are confronted. Following the savings bond report and the attendant newspaper and television publicity, plus a follow-up article that later appeared in a Sunday newspaper supplement, we received more than 12,000 inquiries. We have now searched about 11,300 of these against the records of bonds deposited with the Treasury and have located 278 accounts on which bonds have been released and another 42 accounts on which there is pending correspondence. About 8,200 of the inquiries were also searched against the records of the Federal Reserve Bank of Chicago and 127 accounts were located.

The difficulty here is that in treating some 467 cases we are faced with the task of examining our records and conducting correspondence on almost 12,000 other cases. Since obviously our operations were not geared to handle this sudden influx of inquiries, it has meant that the service we normally provide was disrupted and as a consequence we were not able to render prompt help to those savings bond owners who had legitimate reasons to ask our assistance.

I might also mention in this connection that the pilot study approach for servicemen's bonds was adopted not only to determine its feasibility, but also to determine what the costs of any such program are likely to be. This will give us a chance to advise the Congress as to the costs of any positive program to return these bonds, and thereby form the basis of our request for funding it.

In conclusion, I should like to commend the assistance that we have received from the Veterans Administration in helping us to see whether a viable program could be established for returning these bonds to their rightful owners. I should also like to express my appreciation to the Committee for this opportunity to explain the varying considerations that relate to this matter and to provide some updated information as to our programs to effect the Comptroller General's recommendations. We shall certainly continue in these efforts, and will be devising new approaches where possible.

In this latter connection, let me just add that we have not undertaken to publish information concerning the bonds being held in various Veterans' publications, a matter to which the GAO report referred. We have some deep-seated reservations about breaking the long-standing Treasury policy of maintaining the confidentiality of security holdings. However, we are weighing an alternative proposal that may make it possible to utilize the Veterans' publications to try to communicate with the bondowners involved.

It is our expectation that within the next few months we will be able to report substantial progress in our efforts to deliver the bonds. I hope, too, that we can devise new programs and procedures for accelerating their return. I shall be pleased to provide continuing information to this Sub-Committee about our progress.

Thank you very much.

Removal Notice

FRASER

The item identified below has been removed in accordance with FRASER's policy on handling sensitive information in digitization projects due to

Citation Information

Document Type:

Number of Pages Removed:

Author(s):

Title:

Date:

Journal:

Volume:

Page(s):

URL:

Removal Notice

FRASER

The item identified below has been removed in accordance with FRASER's policy on handling sensitive information in digitization projects due to

Citation Information

Document Type:

Number of Pages Removed:

Author(s):

Title:

Date:

Journal:

Volume:

Page(s):

URL:

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

288

FOR RELEASE AT 9:30 A.M. EDT, FRIDAY, AUGUST 9

STATEMENT BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE
THE SUBCOMMITTEE ON INTERNATIONAL FINANCE AND RESOURCES
OF
THE SENATE FINANCE COMMITTEE
FRIDAY AUGUST 9, 1974 AT 9:30 A.M. EDT

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

I am delighted to have the opportunity to be here today to discuss my recent trip to the Middle East and Europe. As part of such discussion, I think it is important to focus on the effect on the U. S. and world economies of increased capital flows to the oil exporting countries.

The purpose of my trip was to continue our recent diplomatic efforts to achieve a durable and lasting peace in the Mideast. I believe that peace and economic progress are interrelated issues. Without peace, we cannot have economic progress. With economic progress, however, we can minimize the possibility of renewed hostilities. Fortunately, the diplomatic efforts of the President and Secretary Kissinger in recent months have established a framework for peace and stability in the Middle East that hasn't existed for three decades. After my meetings, I am optimistic that we can help these countries strengthen their economies and achieve needed industrialization and development, which in turn will contribute greatly to the cause of peace.

WS-77

BACKGROUND

Before outlining the highlights of each of my visits, I think it would be useful to explain the background of how the trip developed. Prince Fahd of Saudi Arabia visited the United States in early June, and at that time we established a Joint Saudi-U. S. Economic Commission. This was a major step in establishing closer economic relations between the United States and Saudi Arabia and we agreed to have working groups meet in Saudi Arabia in July. Subsequently, when the President visited Egypt and Israel and suggested that I visit those countries, we thought it would be useful to go to all three Mideast countries and in Saudi Arabia, to open the working group sessions. Kuwait which was the final stop on the Middle East portion of our trip, offered us the opportunity to bring the first high-level U.S. delegation to a country which has increasingly occupied a critical role not just in energy affairs, but world economic affairs as well. The balance of our trip was devoted to continuing our economic consultations with finance ministers and other leaders in Germany, Italy, France and England.

289

As I will describe in detail, all of our meetings, whether they were with heads of state, finance ministers, petroleum ministers, central bankers, or members of the private sector, were based on mutual concerns: striving for political stability and economic stability, and our shared pursuit for peace and economic prosperity.

EGYPT

The visit to Egypt was in many respects one of the most intriguing aspects of our trip. While the visit was aimed at seeing how we could assist the Egyptians in strengthening their economy, I was especially aware of Egypt's unique historical role as a seat of political and cultural leadership in the entire Middle East.

We were there not only to offer assistance, but to learn as much as we possibly could about the dimensions of Egypt's economy, about their emerging economic aspirations, and, most important, about the shape of President Sadat's program to progressively return Egypt's economy to an open, and more liberal, system.

I would especially like to stress the point that in our meetings with President Sadat, Deputy Prime Minister Hegazi, and Finance Minister Fatah, the Egyptian leaders repeatedly reaffirmed their gratitude for the President's and Secretary Kissinger's role in securing an initial framework for peace in the Middle East.

Our stay in Egypt was marked with intense, frank and cordial discussions which brought a number of tangible results:

-- In addition to groups that have already been formed in scientific and technological cooperation, medical cooperation, and cultural exchange, we agreed to establish a senior working group to focus on economic development and investment. A broad cross section of representatives from the Departments of State, Agriculture, Commerce, Treasury, and other agencies will participate and Assistant Secretary of the Treasury Gerald Parsky will serve as co-chairman. The Egyptians agreed to name a co-chairman shortly. This work group will contain five subcommittees to cover:

(1) Investment

(2) Domestic development and industrialization

(3) Foreign trade

(4) Agriculture

(5) Suez Canal reconstruction and development

290

-- We exchanged documents activating the Investment Guarantee Agreement in order that the U.S. Overseas Private Investment Corporation (OPIC) may insure new U. S. private investments in Egypt. This step was made possible by the decision announced earlier to establish a Joint Commission to seek settlement of U. S. Private claims against the government of Egypt.

-- We discussed plans for detailed utilization of the transfer of official resources from the U.S. to Egypt through:

(1) the $250 million of economic assistance which has been proposed to the Congress for the current fiscal year and which I urge you to act favorably on:

(2) an expanded program of PL-480 sales of U.S. agricultural products to Egypt on the basis of long-term loans on favorable terms;

(3) increased use of the facilities of the U.S. Export-Import Bank to assist other U.S. exports to Egypt on a long-term credit basis.

-- We also discussed ways in which we can work together in qualifying Egypt for the maximum in financial support from the World Bank, the International Monetary Fund, and other official agencies both national and international.

-- Not only did we discuss the transfer of financial assistance, but also of valuable technical assistance from the U. S. in many fields, including the fields of financial administration, including debt management; tax administration; statistics; agriculture; population control; building and electrical codes and standards; and many other areas.

-- Further, we agreed to explore the possibility of establishing a Project Development Institute which would assist in the development of viable projects by providing a mechanism for feasibility studies, thus serving as an inducement to increased investment in Egypt.

-- We also explored additional ways in which we can work together to attract private investment to Egypt not just from the U.S. but from all parts of the world, particularly investment made jointly with the benefit of U.S. technological contributions. In addition to activation of the Guaranty Program, mentioned above, we offered to assist:

(1) in publicizing the provisions of the new Egyptian Investment Law,

(2) in making widely known those areas in which Egyptian authorities believe there are promising opportunities for investment in Egypt, and

291

(3) by negotiating a tax treaty to provide a secure base for investor activity.

After this first visit, I have concluded that there is great potential in Egypt for investment. They want investment and are looking for ways to attract it. For instance, while we were in Egypt, Dr. Hegazi announced the acceptance of permits from four major U.S. banks to establish offices in Egypt. This was a most significant indicator of Egypt's commitment to attracting U.S. investment and of moving to liberalize their economy.

ISRAEL

After my talks in Egypt, I visited Israel. During our one and a half days of intensive consultations with Prime Minister Rabin, and other key members of the Israeli Cabinet, we moved in a deliberate fashion to find ways to attract investment to Israel and to expand trade with the U.S. To assist in these efforts we took the following actions:

-- established a Joint U.S.-Israel Committee on Trade and Investment co-chaired by Finance Minister Rabinowitz and me. We also agreed to establish four subcommittees dealing with a) investment, b) trade, c) raw materials, and d) research and development.

-- invited Finance Minister Rabinowitz to visit the U.S. for the first meeting of the Joint Committee in early November and he accepted.

-- agreed to explore ways to establish a Joint U.S.-Israel Economic Council consisting of private U.S. businessmen and Israeli private business and government representatives.

We indicated that we are prepared to assist Israel by providing a broad-range of technical assistance and expertise. We also agreed to explore the possibility

292

of a tax treaty and other incentives that may stimulate private investment in Israel.

I believe my visit to Israel demonstrated that our new economic relationships in the other areas of the Middle East in no way signify a diminution of our sensitivities to Israel's needs and our desire to work cooperatively with them.

SAUDI ARABIA

My visit to Saudi Arabia which followed the talks in Israel was part of our continuing efforts to establish a closer economic relationship with the Saudis, and followed the President's June meeting in that country, as well as Prince Fahd's June visit to Washington, when we established the Joint Saudi-U.S. Economic Commission and the Joint Working Groups to deal with the specific areas of industrialization, manpower and education, science and technology and agriculture.

At the outset, it is important to point out that Saudi Arabia's growing accumulation of monetary reserves, which today exceed their ability to absorb them domestically has confronted them with a two-part challenge:

First, how can they spend their resources at home in such a way as to diversify their economy and industrialize their country so that their reliance on oil will be diminished. Make no mistake about it, the Saudis are looking beyond the day of oil primacy.

Second, how can they invest their funds abroad in a fashion that maximizes profit without creating unwieldy and unwanted pressures on the world monetary system.

During the visit, we held intense and broad-ranging discussions not only on the economic goals of Saudi Arabia but also on their investment objectives as well. We outlined a proposal for investment in U.S. Treasury Special Issues, and began an initial discussion of the advantages both countries would share in negotiating a tax treaty between the U.S. and their country.

Further, we discussed the impact of world oil prices on the developed and less developed countries. They recognize the effects of high oil prices and have clearly been working toward achieving more reasonable prices. In this regard I believe it's important to note that during our visit, Oil Minister Yamani announced the Saudis' intention to hold an oil auction in August and that they would accept whatever price was bid.

293

Finally, I opened the initial meeting of the Joint Working Group on Industrialization. This group and the group focusing on Manpower and Education met for a week after I left. These groups had representation from our Departments of State, Commerce, Labor, HEW, and AID, and Assistant Secretary of the Treasury Gerald Parsky remained behind to coordinate both groups. I believe these groups accomplished a great deal during these first meetings. Let me briefly outline what was agreed to:

1) We will enter into a comprehensive U.S. Government-Saudi Technical Cooperation Agreement for reimbursement of technical services to our government;

2) The U.S. Government will assign a number of U.S. Government experts to work full time in Saudi Arabia as part of the Joint Commission effort;

3) During August, the U.S. Government will send experts to Saudi Arabia for a temporary period

i) to improve the Saudi statistical and industrial information base,

ii) to advise on customs,

iii) to improve on port management, and

iv) to advise on environmental and pollution standards.

4) During September, the U.S. Government will send additional experts for a temporary period

i) to improve standards for industrial construction,

ii) to advise on the development of marine fisheries,

iii) to advise on establishment of international standards for protection of patents and copyrights, and

iv) to advise on the improvement of communication facilities.

5) The U.S. Corps of Engineers will be requested to expand its role beyond that now performed for the Saudi Ministry of Defense to assist on important infrastructure projects needed for industrialization in Saudi Arabia.

6) Two Saudi representatives will visit the Tennessee Valley Authority within the next two months to recommend the types of TVA assistance needed in the Saudi program to increase fertilizer production.

7) Finally, the Joint Working Group on Industrialization will meet again in late September in Washington.

294

In addition, the working group on Manpower and Education agreed that:

1) In August, the U.S. will send three technical experts to Saudi Arabia to evaluate current vocational training, including on-the-job training, and develop a proposal for the establishment of technical assistance for additional training programs;

2) In September, the U.S. will send five experts to evaluate the overall Saudi educational system and recommend full assistance projects to implement improvements in the system;

3) During September, Saudi experts will be sent to the U.S. to study government employee training and the petrochemical industry; and

4) Finally, during August and September 1974, the U.S. group agreed to mobilize U.S. resources in the following priority areas:

i) Access for Saudi students to U.S. educational facilities, particularly in law and medicine, including medical internships,

ii) Institutional and program development for Saudi universities and colleges, particularly in business administration, industrial management, extension services (conducting special seminars), and technical services,

iii) Professional recruitment and exchange, including seconding arrangements for American professors to teach in Saudi Arabia, and visiting professors,

iv) Establishment of junior colleges, preferably utilizing existing university facilities, and

v) Development of technical-level training program in the petrochemical field.

We plan to hold the initial meetings of the third and fourth working groups, on Agriculture and Science and Technology, in Saudi Arabia in September. We are hopeful that they will be as successful.

KUWAIT

Following our stop in Saudi Arabia, we made a brief visit to Kuwait. Our meetings there were especially significant from a number of viewpoints.

First, they marked the first visit of a high-level delegation to this critical oil-producing country which, in the last decade, has come to occupy a position of growing importance in the world community.

Second, I had extensive and quite frank discussions with Kuwait's Minister of Oil and Finance Abdul Rahman Atiqi regarding the price of oil. There are still considerable differences of opinion on this subject but it was a most constructive dialogue and opened the way for future discussions.

Third, we had an opportunity to discuss the Kuwaitis' investment objectives, as well as their willingness to assist not only developing Arab countries, but countries throughout the world through such vehicles as the Kuwait Fund.

The Kuwaitis were most interested in receiving as much information as possible regarding the possibility of Treasury Special Issues. They recognized that the U.S. capital market is the most liquid and stable in the world economic community and were interested in the unique opportunities Special Issues avail to the large-scale investor.

With respect to energy issues, I think it was significant that they asked that we send Treasury energy experts to give them a thorough briefing on the econometric studies which support our view that lower oil prices are not only in the interests of the consuming nations, but the producing nations as well. These meetings took place within days after my departure from Kuwait.

ENERGY POLICY MATTERS

Before discussing the European part of the trip, I think it would be appropriate to summarize certain oil policy issues that certainly were underlying my visits in the Mideast.

I am sure that Members of this Subcommittee are well aware of the viewpoint I have expressed about the present surplus and future declining price of oil. But I would like to add to the overview, I have already given publicly.

At various times during my talks, I stressed the fact that cutbacks in production, even apart from the political and security implications for the producers, would turn out to be economically harmful to the producers for two reasons. In the first place, the price effects of such cutbacks would inevitably lead to such further intensification of research and investment relating to alternative sources of energy and to alternatives to energy use that the effect would be to reduce the total value which the exporters would receive for their oil over the life of their producing fields. Cutbacks might bring a higher price for a short period, but they would bring a more than offsetting reduction in revenues for a long time thereafter -- in view of the importers' increased commitment to alternatives.

In the second place, maintenance of present costs of export oil -- even with no increase -- would threaten severe economic -- and, in some cases, political -- damage to a large number of consuming countries to an extent which could not help but cause damaging backlash on the producers as well.

In the third place, our Treasury studies of supply and demand elasticity indicate that reductions in demand need not be very great to reduce the total size of the oil market significantly. Reductions in demand due to present prices coupled with increases in competing supplies will result in a steady reduction in OPEC's market. Thus, Treasury studies show that for a wide range of plausible demand and supply elasticities, recent price increases, if maintained, will cost OPEC a sizeable fraction of its sales.

I sensed real concern in Saudi Arabia and Kuwait about these questions. Both Governments have requested that we continue our discussions of energy issues and, in particular, they are interested in our estimates on the projected U.S. needs for oil from the oil-producing countries.

In conjunction with some of the discussions in the Middle East on the responsibility of oil producers to aid lesser developed nations, I would like to provide the Subcommittee with the following examples of constructive actions taken by the OPEC countries:

297

1. Six OPEC countries have pledged over $3 billion to a special facility in the IMF to provide supplementary financing for oil importing countries. Four more OPEC countries are considering contributions. It is contemplated that this facility would be somewhat below market rates, but not in the concessional area, and would help both developing countries and developed countries with balance of payments problems arising from increased oil costs.

2. Kuwait is expanding its Economic Development Fund from approximately $600 million to over $3 billion. Assistance from the Fund will no longer be confined to Arab nations, and the new funds are to be lent on a concessional basis. Expansion of operations from current levels may be relatively slow because of the Fund's shortage of qualified technical personnel, but the World Bank has offered technical assistance to overcome this staffing problem.

3. Iran is extending over $1 billion in bilateral project assistance on favorable terms to Middle East and South Asian countries in addition to providing special price and financing arrangements for certain of its oil exports. Saudi Arabia and Iraq are extending similar project and/or oil financing facilities in the region.

4. Venezuela is actively negotiating the establishment of a $500 million trust fund with the Inter-American Bank for concessinal lending. Venezuela is also making a further $30 million available to the Caribbean Development Bank.

5. Negotiations were completed in May on a charter for a 24-member Islamic Development Bank, with an initial capital in excess of $1 billion. Formal approval is expected -- with an operational target of end-1974.

6. On the basis of less definite information, Middle East OPEC countries appear to be considering special funds for Africa totalling perhaps $500 million, including a $200 million fund which would initially help with financing oil imports and then be recycled into longer term projects.

While we do not have complete and detailed information on all the financial initiatives, I think the preceding list amply indicates that oil producers are channelling a portion of their resources to the poorer countries, that at least a part of these resources is being made available on the favorable terms that the situation requires, and that we can anticipate still more constructive steps in the future.

295

EUROPE

After these discussions in the Mideast, I was pleased to have the opportunity to meet with a number of European leaders. In my view, a close acquaintance, and frequent and informal conversations with those responsible for economic and financial policy abroad are more than a useful tradition -- they are an essential part of our management of an increasingly complex world economy. There is no substitute for a face-to-face discussion of the current problems our nations face domestically as well as internationally. On this occasion, I particularly welcomed the chance to meet Minister Fourcade in France and Minister Colombo in Italy, since both had missed the Committee of Twenty Meeting in Washington in June because of the press of domestic matters.

This Subcommittee has expressed specific interest in the problems of re-cycling oil money, and I will offer some comments on that situation in light of my talks in Europe. But I do at the outset want to make clear that this was not the only topic of concern -- specifically, the problem of inflation was very much on the minds of the leaders with whom I spoke.

Inflation is the number one economic problem facing the world today. All of Europe is experiencing inflation rates unacceptable by past standards. And in a world grown increasingly interdependent through rapid growth of international commerce, it is increasingly recognized that we all share a common interest in the success of each other's anti-inflationary policies.

Inflation rates are too high everywhere. But they differ widely from country to country. Our record has not been good. But consumer prices have been rising even faster in Italy, in the United Kingdom and in France. And even those countries can feel some relief that they are not experiencing the extraordinarily rapid increases that Japan has been suffering.

It was the German experience which particularly drew my attention. That country has within living memory suffered most severely from uncontrolled inflation and accordingly one finds there a low tolerance for inflation and strong support for policies of restraint. The German authorities have for an extended time followed firm policies of demand management. I am convinced that these policies explain why inflation in Germany is less virulent than in other countries in a fundamentally similar situation.

Our discussions in Europe did focus on the problems of financing oil surpluses and deficits and the ability of private financial markets to handle the anticipated vast flows of funds. Let me make clear at the outset that there was general recognition that the private markets face a serious challenge. But no one was talking about impending failure of financial markets generally or of the monetary system. Nor was there worry that oil monies will be capriciously shifted from one market to another thereby disrupting the foreign exchange and financial markets. All of our experience confirms that the financial authorities of the Arab countries intend to manage their oil revenues in a conservative and responsible manner.

The problems of re-cycling oil revenues do not arise from this source. They derive rather from the very large magnitudes involved and the abrupt adjustments required to handle such magnitudes. OPEC oil revenues are presently running at an annual rate of some $100 billion. That is on the basis of present oil prices, and subject to a great many uncertainties. Some of these revenues are spent on imports and other current consumption, and the balance

is available for investments and loans and so on. There are uncertainties here, too, but again it is convenient to think in terms of perhaps some 60 percent of total OPEC oil revenues available for investment in one form or another -- roughly $60 billion at the present annual rate. By any standards, this represents a lot of money to be re-cycled.

I should caution very strongly, however, against extrapolating these figures into the future. You know already my views about oil prices. In addition, there are estimates which suggest that the OPEC countries may be able to make rapid strides toward expanding their imports and spending their oil revenues. Given these prospects, there is in my view no basis for some of the extreme projections of OPEC investments exceeding the trillion dollar level within a decade or so.

But no one should ignore the potential difficulties facing both the private financial markets and governments in dealing with the large flows expected this year. That is the matter which we discussed in Europe.

As far as the private markets were concerned, we were careful to approach this question quite apart from the difficulties of a few individual banks which have over-extended themselves in trading primarily in the forward

300

exchange markets. Forward trading is important to the proper functioning of the foreign exchange markets, but clearly some of these institutions simply got in over their heads.

Apart from these cases, we observed that the private financial system was doing a remarkable job of handling very large expanded operations. The financial intermediaries are, of course, adjusting their practices in the face of changed circumstances, in particular proving themselves unwilling to pay the same rates for short maturity deposits they cannot easily use as for longer-term deposits they can re-lend prudently. They are also becoming more active as brokers, arranging direct placements. And the lenders are exploring other channels for their funds, thus easing the pressures on the financial intermediaries. I refer here not only to the talks we have been having with Middle Eastern financial authorities about possible purchases of U.S. Special Securities but also about such developments as the recently announced Iranian advances to France and the U.K., and investment in the Krupp concern in Germany.

It is true, of course, that world capital markets are very large even in comparison to prospective OPEC oil monies. To take the U.S. market alone: U.S. corporate

assets are estimated at well in excess of $2 trillion, and equity and debt securities outstanding at the end of last year amounted to some $1.8 trillion. Even the relatively young "Euro Currency" market had at the end of last year, before the new oil prices had much impact on capital flows, grown to over $150 billion. Today, that market probably approaches $200 billion.

As for the role of governments in facilitating the flow of money through private markets and directly in the re-cycling process, the first responsibility of governments is to maintain those economic and financial conditions that are conducive to sound economic activity. In the present circumstances, this means firm policies to deal with inflation and the avoidance of sharp turns in policies. I can see nothing but trouble if we yield to inflation.

A second area of governmental responsibility involves the surveillance and supervision of banking practices. Cases of faulty management in the foreign exchange dealings of some banks, for example, suggest it is a time for careful attention by supervisory authorities to the practices of individual institutions. In my talks in Germany, I was interested to have an explanation of the steps being taken there to obtain better control of bank activities.

301

Yet another role of governments, or more commonly, of central banks, is that of assuring the smooth functioning of the financial system as a whole. The public authorities cannot be asked to provide compensation for the mistakes of management: They can properly be asked to see that the solvency problems of one institution do not snowball into severe liquidity problems for the entire system.

Beyond facilitating flows of funds through the private markets, there is also a proper role for governments directly in the re-cycling process.

Here I think first of the problems of the poorest countries most seriously affected by the oil price increases. I am encouraged by the evidence that the oil exporting countries are recognizing their responsibilities by expanding their assistance, both directly AND indirectly, to those hardest hit countries.

But there remains an urgent need to organize the necessary assistance for these countries. Progress toward that end was initiated at the June meeting of the Ministers of the Committee of 20 when it was agreed that a new development council would be established and that it would give priority attention to the problems of these most seriously affected countries.

That C-20 meeting also agreed on another important step involving governments in the re-cycling process, by establishing the special oil facility in the International Monetary Fund. That facility will provide a very useful supplement for those countries which can afford its near-market terms but which are unable to obtain adequate financing through private markets.

Governments and central banks of the main countries have, in addition, an extensive network of swap arrangements developed first in the 1960's. Although not appropriate for long-term financing of oil deficits, they can serve usefully to assist in dealing with short-term pressures in the exchange markets.

The responsibility of governments does not end with these steps. In my conversations abroad, we were very keenly aware of the need to follow closely developments in the markets and, if necessary, develop new mechanisms to channel oil funds. We will be working on contingency plans which will allow us to act quickly and positively should need arise.

The breadth and diversity of U. S. capital markets suggest that we will attract a substantial share of OPEC funds. My European colleagues expressed some concern, in fact that these flows to the U. S. would exceed levels needed to finance our increased oil bills. Although they

recognized there was no evidence that such excessive inflows to the U.S. were in fact occurring they were interested in what our reaction would be.

Our reaction to this potential problem is already a matter of record. Earlier this year we removed our capital controls and opened our markets to foreign borrowers again on the basis prevailing before imposition of restraints over a decade ago. Under these circumstances, should there be substantial investments in U.S. Government securities, this would reduce our official borrowing from domestic sources and free resources for lending abroad. We have offered OPEC nations an opportunity to place a portion of their funds in special U.S. Government securities, and there is deep interest on their part in such placements. But this is a matter of convenience, not an attempt to attract excessive investments here. No special inducements are offered -- merely the opportunity of government-to-government transactions which enable the investor to transact very large sums without influencing the market against himself. It is a facility we would offer -- and have offered -- a number of foreign nations holding very large dollar balances.

To a large extent, I returned from my meetings in the Middle East and Europe reassured that a firm basis exists for dealing with the critical problems of the day in a cooperative framework. We have put the mechanisms in place that will enhance economic development and at the same time establish closer relationships with these countries. Strengthening their economies is in the best interest of the entire world. I believe we have taken the necessary first steps in that effort and now we must work together to implement these initiatives. I am confident that we have the will and the resources to succeed in this critical task.

- o0o -

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

303

IMMEDIATE RELEASE August 8, 1974

MARY T. BROOKS TAKES OATH OF OFFICE FOR SECOND TERM AS TWENTY-EIGHTH DIRECTOR OF THE BUREAU OF THE MINT

Mrs. Mary T. Brooks of Carey, Idaho, today took the oath of office for her second five-year term as the 28th Director of the Bureau of the Mint. Secretary of the Treasury William E. Simon administered the oath at a ceremony in his office in the Treasury Department at 2:45 p.m.

Reflecting on her first five-year term, Secretary Simon said, Mrs. Brooks' "many accomplishments are a tribute to her forceful and imaginative leadership, and are representative of the high standards of her public service."

As Director of the Mint and its six field institutions, Mrs. Brooks is responsible for an adequate supply of coinage for the daily commerce of our ever-growing economy. She directs the largest and most modern government coin-producing facilities in the world. In addition to coin production, the Mint produces hundreds of national medals authorized by Congress and numerous numismatic items for sale to the public.

Mrs. Brooks' accomplishments in her first five-year term are notable. Briefly, she initiated and guided the most sweeping reorganization and modernization of the Mint in order to meet the fast-growing coin demand. She has launched a series of imaginative and far-reaching programs for the benefit of all people, especially the young. Her intense interest in the preservation of our national treasures led to the acquisition of the Old San Francisco Mint building, now used as a museum for the public and the Mint's computer center. She salvaged invaluable Tiffany glass mosaics from the old Philadelphia Mint, as well as many pieces of Victorian furniture, used in the Mint during this historic period.

Mrs. Brooks was born in Colby, Kansas. She attended Mills College and received a B.A. from the University of Idaho. She is the daughter of former Senator John Thomas of Idaho and served as his Administrative Assistant prior to his death in 1945. She worked in the family's banking chain and managed and developed a large sheep and cattle ranch in Idaho.

(OVER)

From 1957 to 1963, she served as a member of the Republican National Committee and was elected Vice Chairman in 1960. From 1965 to 1969, she served as Assistant Chairman. In 1964, Mrs. Brooks was elected Senator in the Idaho State Legislature, and was re-elected in 1966 and 1968.

In March, 1969, she was appointed by President Nixon for a five-year term as twenty-eighth Director of the United States Mint, the third woman to fill this important position.

Since taking the oath of office in September, 1969, for her first term, Mrs. Brooks has received numerous awards of recognition. Among them are: Idaho's Woman of the Year; election to the University of Idaho's Hall of Fame; Treasury's Exceptional Service Award; California Historical Society's Certificate of Merit; and Kappa Kappa Gamma High Achievement Award. She also holds membership in many civic, social and political organizations.

Mrs. Brooks was reappointed for a second term in April, 1974.

oOo

304

Thelma
put in her file pls

REMARKS BY SECRETARY WILLIAM E. SIMON
AT THE SWEARING-IN OF MARY BROOKS
AS DIRECTOR OF THE MINT
THURSDAY, AUGUST 8, 1974 AT 3:00 P.M.

IT IS WITH A GREAT DEAL OF PERSONAL PLEASURE AND OFFICIAL PRIDE THAT I TELL YOU A LITTLE ABOUT THIS GREAT LADY I AM ABOUT TO SWEAR INTO OFFICE--MARY BROOKS.

HER ACCOMPLISHMENTS SINCE SHE BECAME DIRECTOR OF THE MINT ARE NOTABLE.

-- SHE INITIATED AND GUIDED THE MOST SWEEPING REORGANIZATION AND MODERNIZATION OF THE BUREAU OF THE MINT IN ORDER TO MEET THE EVER-GROWING COIN DEMAND.

-- SHE HAS LAUNCHED A SERIES OF IMAGINATIVE AND FAR-REACHING PROGRAMS FOR THE BENEFIT OF ALL PEOPLE, ESPECIALLY THE YOUNG. THESE INCLUDE THE FIRST CHANGE IN OUR COINS COMMEMORATING OUR NATION'S BICENTENNIAL, THE EISENHOWER DOLLAR AND THE PENNY RETRIEVAL PROGRAM. ONE OF PARTICULAR INTEREST IS HER YOUTH EDUCATION PROGRAM UNDER WHICH OUR MANY HISTORIC MEDALS AND PUBLICATIONS WERE PREPARED AND OFFERED FOR THE FIRST TIME TO YOUNG PEOPLE TO ENCOURAGE THEIR INTEREST IN THE HISTORY OF

3305

OUR COUNTRY. SHE HAS LITERALLY OPENED UP THE MINT TO THE PUBLIC, AND MORE THAN DOUBLED ITS LIST OF COLLECTORS WHO BUY MILLIONS OF SPECIAL COINS AND MEDALS EACH YEAR.

-- HER INTENSE INTEREST IN THE PRESERVATION OF OUR NATIONAL TREASURES LED TO THE ACQUISITION OF THE OLD SAN FRANCISCO MINT BUILDING FOR USE BY THE PUBLIC AS A MUSEUM AND BY THE MINT AS ITS COMPUTER CENTER. SHE SALVAGED INVALUABLE TIFFANY GLASS MOSAICS FROM THE OLD PHILADELPHIA MINT, AS WELL AS MANY PIECES OF VICTORIAN FURNITURE, WHICH WERE RESTORED AND PUT BACK INTO USE OR ON DISPLAY IN THE MANY MINT PUBLIC AREAS WHICH ACCOMMODATE THOUSANDS OF TOURISTS EVERY DAY.

MARY ATTENDED MILLS COLLEGE AND RECEIVED A B.A. FROM THE UNIVERSITY OF IDAHO.

SHE IS THE DAUGHTER OF FORMER SENATOR JOHN THOMAS OF IDAHO AND SERVED AS HIS ADMINISTRATIVE ASSISTANT PRIOR TO HIS DEATH IN 1945. SHE WORKED IN THE FAMILY'S BANKING CHAIN AND MANAGED AND DEVELOPED A LARGE SHEEP AND CATTLE RANCH IN IDAHO.

306

FROM 1957 to 1963, SHE SERVED AS MEMBER OF THE REPUBLICAN NATIONAL COMMITTEE AND WAS ELECTED VICE CHAIRMAN IN 1960. FROM 1965 TO 1969, SHE SERVED AS ASSISTANT CHAIRMAN.

IN 1964, MARY WAS ELECTED SENATOR IN IDAHO STATE LEGISLATURE, AND WAS RE-ELECTED IN 1966 AND 1968.

IN MARCH 1969, SHE WAS APPOINTED BY PRESIDENT NIXON FOR A FIVE-YEAR TERM AS THE TWENTY-EIGHTH DIRECTOR OF THE UNITED STATES MINT, THE THIRD WOMAN TO FILL THIS IMPORTANT POSITION, AND WAS REAPPOINTED FOR A SECOND FIVE-YEAR TERM IN APRIL 1974.

SINCE TAKING OFFICE IN SEPTEMBER OF 1969, MRS. BROOKS HAS RECEIVED NUMEROUS AWARDS OF RECOGNITION. THEY INCLUDE:

-- IDAHO'S WOMAN OF THE YEAR

-- ELECTION TO IDAHO'S HALL OF FAME

-- TREASURY'S EXCEPTIONAL SERVICE AWARD

-- CALIFORNIA HISTORICAL SOCIETY'S CERTIFICATE OF MERIT

-- KAPPA KAPPA GAMMA ACHIEVEMENT AWARD

307

THESE ARE BUT A FEW OF THE MANY ACCOMPLISHMENTS WHICH ARE A TRIBUTE TO MARY BROOK'S FORCEFUL AND IMAGINATIVE LEADERSHIP, AND ARE REPRESENTATIVE OF THE HIGH STANDARDS OF HER PUBLIC SERVICE.

0o0

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

308

FOR IMMEDIATE RELEASE August 8, 1974

RESULTS OF TREASURY BOND AUCTION

The Treasury has accepted $400 million of the $1,060 million of tenders received from the public for the 24-3/4 year 8-1/2% bonds auctioned today. The range of accepted competitive bids was as follows:

	Price	Approximate Yield To First Callable Date	Approximate Yield To Maturity
High	99.76 1/	8.52%	8.52%
Low	98.00	8.71%	8.70%
Average	98.70	8.64%	8.63%

1/ Excepting 3 tenders totaling $2,192,000

The $ 400 million of accepted tenders includes 100% of the amount of bonds bid for at the low price, and $ 35 million of noncompetitive tenders accepted at the average price.

In additon, $486 million of the bonds were allotted to Federal Reserve Banks and Government accounts at the average price, in exchange for notes maturing August 15.

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

309

MEMORANDUM FOR CORRESPONDENTS AUGUST 9, 1974

President Ford today asked Secretary Simon to remain as Secretary of the Treasury. The Secretary said that he would be delighted.

0o0

WS-83

UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH July 31, 1974

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

310

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	29,502	19	.06
Series J and K-1952 thru 1957	3,754	3,748	6	.16
UNMATURED				
Series E [3]:				
1941	1,935	1,755	179	9.25
1942	8,538	7,731	807	9.45
1943	13,725	12,450	1,275	9.29
1944	16,032	14,462	1,570	9.79
1945	12,626	11,254	1,372	10.87
1946	5,766	4,993	773	13.41
1947	5,503	4,639	864	15.70
1948	5,710	4,739	971	17.01
1949	5,672	4,631	1,041	18.35
1950	4,982	4,015	967	19.41
1951	4,309	3,473	836	19.40
1952	4,519	3,619	900	19.92
1953	5,181	4,074	1,107	21.37
1954	5,294	4,103	1,191	22.50
1955	5,513	4,238	1,276	23.15
1956	5,330	4,067	1,263	23.70
1957	5,030	3,794	1,235	24.55
1958	4,927	3,626	1,302	26.43
1959	4,626	3,370	1,256	27.15
1960	4,659	3,306	1,353	29.04
1961	4,758	3,264	1,494	31.40
1962	4,636	3,103	1,533	33.07
1963	5,223	3,317	1,906	36.49
1964	5,090	3,239	1,851	36.37
1965	4,984	3,150	1,835	36.82
1966	5,398	3,277	2,121	39.29
1967	5,329	3,189	2,140	40.16
1968	5,030	2,983	2,047	40.70
1969	4,743	2,708	2,034	42.88
1970	4,975	2,588	2,387	47.98
1971	5,733	2,585	3,148	54.91
1972	6,325	2,437	3,888	61.47
1973	6,251	1,962	4,288	68.60
1974	2,711	313	2,398	88.45
Unclassified	516	634	-118	-
Total Series E	201,580	147,089	54,490	27.03
Series H (1952 thru May, 1959) [3]	5,484	4,102	1,383	25.22
H (June, 1959 thru 1974)	9,770	3,460	6,310	64.59
Total Series H	15,253	7,560	7,692	50.43
Total Series E and H	216,833	154,649	62,182	28.68
All Series — Total matured	38,277	38,249	29	.08
All Series — Total unmatured	216,833	154,649	62,182	28.68
All Series — Grand Total	255,110	192,898	62,211	24.39

[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.

Form PD 3812 (Rev. Mar. 1974) – Dept. of the Treasury – Bureau of the Public Debt

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

311

FOR IMMEDIATE RELEASE August 12, 1974

TREASURY ISSUES AMENDMENT TO ANTIDUMPING PROCEEDING NOTICE ON LOCK-IN AMPLIFIERS FROM THE UNITED KINGDOM

Assistant Secretary of the Treasury David R. Macdonald amended today the antidumping proceeding notice which was issued on lock-in amplifiers from the United Kingdom on May 17, 1974. The amendments broaden the coverage of the initial notice to include both assembled lock-in amplifiers imported into the United States from the United Kingdom and parts of such amplifiers.

Notice of this action will be published in the Federal Register of August 13, 1974.

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

312

STATEMENT BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE
THE SUBCOMMITTEE ON MULTINATIONAL CORPORATIONS
THE SENATE COMMITTEE ON FOREIGN RELATIONS
MONDAY AUGUST 12, 1974 AT 10:00 A.M. EDT

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

I am delighted to have the opportunity to be here today to discuss my recent trip to the Middle East and Europe. As part of the discussion, I think it's important to focus on how the U.S. and world economies will be affected by increased capital flows to the oil exporting countries. In addition, I will briefly discuss the price of oil and the current supply.

The purpose of my trip was to continue our recent diplomatic efforts to achieve a durable and lasting peace in the Mideast. I believe that peace and economic progress are interrelated issues. Without peace, we cannot have economic progress. With economic progress, however, we can minimize the possibility of renewed hostilities. Fortunately, the diplomatic efforts of the President and Secretary Kissinger in recent months have established a framework for peace and stability in the Middle East that hasn't existed for three decades and President Ford intends to pursue this policy in the months ahead. After my own meetings, I'm optimistic that we can help Middle East countries strengthen their economies and achieve needed industrialization and development, which---in turn---will contribute greatly to the cause of peace.

WS-81

BACKGROUND

Before outlining the highlights of each of my visits, it would be useful to explain the background of how the trip developed. Prince Fahd of Saudi Arabia visited the United States in early June, and at that time we established a Joint Saudi - U.S. Economic Commission. This was a major step in establishing closer economic relations between the United States and Saudi Arabia---and we agreed to have working groups meet in Saudi Arabia in July. Subsequently---when the President visited Egypt and Israel and suggested that I visit those countries---we thought it would be useful to go to all three Mideast countries and to open the working group sessions in Saudi Arabia. Kuwait was the final stop on the Middle East portion of our trip---and offered us an opportunity to bring the first high-level U.S. delegation to a country which has increasingly occupied a critical role not just in energy affairs, but world economic affairs as well. The balance of our trip was devoted to continuing our economic consultations with finance ministers and other leaders in Germany, Italy, France and England.

As I'll describe in detail, all of our meetings---whether they were with heads of state, finance ministers, petroleum ministers, central bankers, or members of the private sector---were based on mutual concerns: striving for political stability and economic stability...and our shared pursuit for peace and economic prosperity.

313

EGYPT

The visit to Egypt was in many respects one of the most intriguing aspects of our trip. While the visit was aimed at seeing how we could assist the Egyptians in strengthening their economy, I was especially aware of Egypt's unique historical role as a seat of political and cultural leadership in the entire Middle East.

We were there not only to offer assistance, but to learn as much as we possibly could about the dimensions of Egypt's economy, about their emerging economic aspirations, and---most important---about the shape of President Sadat's program to progressively return Egypt's economy to an open, and more liberal, system.

I would especially like to stress the point that in our meetings with President Sadat, Deputy Prime Minister Hegazi, and Finance Minister Fatah, the Egyptian leaders repeatedly reaffirmed their gratitude for President Nixon and Secretary Kissinger's role in securing an initial framework for peace in the Middle East.

Our stay in Egypt was marked with intense, frank and cordial discussions which brought a number of tangible results:

-- In addition to groups that have already been formed in scientific and technological cooperation, medical cooperation, and cultural exchange, we agreed to establish a senior working group---to focus on economic development and investment. A broad cross section of representatives from the Departments of

State, Agriculture, Commerce, Treasury, and other agencies will participate and Assistant Secretary of the Treasury Gerald Parsky will serve as co-chairman. The Egyptians agreed to name a co-chairman shortly.

This work group will contain five subcommittees to cover:

(1) Investment

(2) Domestic development and industrialization

(3) Foreign trade

(4) Agriculture

(5) Suez Canal reconstruction and development

314

1
sky

-- We exchanged documents activating the Investment Guarantee Agreement in order that the U.S. Overseas Private Investment Corporation (OPIC) may insure new U.S. private investments in Egypt. This step was made possible by the decision announced earlier to establish a Joint Commission to seek settlement of U.S. Private claims against the government of Egypt.

-- We discussed the possible utilization of resources transferred from the U.S. to Egypt through:

(1) the <u>$250</u> million of economic assistance which has been proposed to the Congress for the current fiscal year and which I urge Congress to act upon favorably

(2) a possible program of PL-480 sales of U.S. agricultural products to Egypt on the basis of long-term loans on favorable terms;

(3) increased use of the facilities of the U.S. Export-Import Bank to assist other U.S. exports to Egypt on a long-term credit basis.

-- We also discussed ways in which we can work together in qualifying Egypt for the maximum in financial support from the World Bank, the International Monetary Fund, and other official agencies both national and international.

-- Not only did we discuss the provision of financial assistance, but also of valuable technical assistance from the U.S. in many fields, including the fields of financial administration, including debt management; tax administration; statistics; agriculture; population control; building and electrical codes and standards; and many other areas.

-- Further, we agreed to explore the possibility of establishing a Project Development Institute which would assist in the development of viable projects by providing a mechanism for feasibility studies, thus serving as an inducement to increased investment in Egypt.

-- We also explored additional ways in which we can work together to attract private investment to Egypt not just from the U.S. but from all parts of the world, particularly investment made jointly with the benefit of U.S. technological contributions. In addition to activation of the Guaranty Program, mentioned above, we offered to assist:

(1) in publicizing the provisions of the new Egyptian Investment Law,

(2) in making widely known those areas in which Egyptian authorities believe there are promising opportunities for investment in Egypt, and

315

(3) by negotiating a tax treaty to provide a secure base for investor activity.

After this first visit, I have concluded that there is great potential for investment in Egypt. They want investment and are looking for ways to attract it. For instance, while we were in Egypt, Dr. Hegazi announced the acceptance of permits from four major U.S. banks to establish offices in Egypt. This was a most significant indicator of Egypt's commitment to attracting U.S. investment and of moving to liberalize their economy.

As you know, Egyptian Foreign Minister Fahmi is leading a high level delegation that is meeting here in Washington this week. In addition, members of Minister Fahmi's delegation will be meeting Assistant Secretary Parsky to discuss areas of economic and financial cooperation.

In my own view, this is further evidence of our common commitment to ensure that the spirit and momentum of our initial meetings in Cairo last month is carried forth.

ISRAEL

After my talks in Egypt, I visited Israel. During our one and a half days of intensive consultations with Prime Minister Rabin, and other key members of the Israeli Cabinet, we moved in a deliberate fashion to find ways to attract investment to Israel and to expand trade with the U.S. To assist in these efforts we took the following actions:

-- established a Joint U.S.-Israel Committee on Trade and Investment co-chaired by Finance Minister Rabinowitz and me. We also agreed to establish four subcommittees dealing with a) investment, b) trade, c) raw materials, and d) research and development.

-- invited Finance Minister Rabinowitz to visit the U.S. for the first meeting of the Joint Committee in early November and he accepted.

-- agreed to explore ways to establish a Joint U.S.-Israel Economic Council consisting of private U.S. businessmen and Israeli private business and government representatives.

We indicated that we are prepared to assist Israel by providing a broad-range of technical assistance and expertise. We also agreed to explore the possibility

316

of a tax treaty and other incentives that may stimulate private investment in Israel

I believe my visit to Israel demonstrated that our new economic relationships in the other areas of the Middle East in no way signify a diminution of our sensitivities to Israel's needs and our desire to work cooperatively with them.

SAUDI ARABIA

My visit to Saudi Arabia, which followed the talks in Israel, was part of our continuing efforts to establish a closer economic relationship with the Saudis. The trip followed the President's June meeting in that country, as well as Prince Fahd's June visit to Washington---when we established the Joint Saudi-U.S. Economic Commission and the Joint Working Groups to deal with the specific areas of industrialization, manpower and education, science and technology and agriculture.

At the outset, it is important to point out that Saudi Arabia's growing accumulation of monetary reserves---which today exceed their ability to absorb them domestically---has confronted them with a two-part challenge:

First, how can they spend their resources at home in such a way as to diversify their economy and industrialize their country, so that their reliance on oil will be diminished. Make no mistake about it, the Saudis are looking beyond the day of oil primacy.

Second, how can they invest their funds abroad in a fashion that will maximize profit without creating unwieldy and unwanted pressures on the world monetary system.

During the visit, we held intense and broad-ranging discussions not only on the economic goals of Saudi Arabia but also on their investment objectives as well. We outlined a proposal for investment in U.S. Treasury Special Issues, and began an initial discussion of the advantages both countries would share in negotiating a tax treaty.

Further, we discussed the impact of world oil prices on the developed and less developed countries. They recognize the effects of high oil prices and have clearly been working toward achieving more reasonable prices. In this regard I believe it's important to note that during our visit, Oil Minister Yamani announced the Saudis' intention to hold an oil auction in August. The amount of oil to be auctioned is, at this point, uncertain, but we received assurances that the bid price will be accepted.

3/17

Finally, I opened the initial meeting of the Joint Working Group on Industrialization. This group and the group focusing on Manpower and Education met for a week after I left. These groups had representation from our Departments of State, Commerce, Labor, HEW, and AID, and Assistant Secretary of the Treasury Gerald Parsky remained behind to coordinate both groups. I believe these groups accomplished a great deal during these first meetings. Let me briefly outline what was agreed to:

1) We will enter into a comprehensive U.S. Government-Saudi Technical Cooperation Agreement for reimbursement of technical services to our government;

2) The U.S. Government will assign a number of U.S. Government experts to work full time in Saudi Arabia as part of the Joint Commission effort;

3) During August, the U.S. Government will send experts to Saudi Arabia for a temporary period

i) to improve the Saudi statistical and industrial information base,

ii) to advise on customs,

iii) to improve on port management, and

iv) to advise on environmental and pollution standards.

4) During September, the U.S. Government will send additional experts for a temporary period

i) to improve standards for industrial construction,

ii) to advise on the development of marine fisheries,

iii) to advise on establishment of international standards for protection of patents and copyrights, and

iv) to advise on the improvement of communication facilities.

5) The U.S. Corps of Engineers will be requested to expand its role beyond that now performed for the Saudi Ministry of Defense to assist on important infrastructure projects needed for industrialization in Saudi Arabia.

6) Two Saudi representatives will visit TVA during the next two months to recommend the types of TVA assistance needed in the Saudi program to increase fertilizer production.

7) Finally, the Joint Working Group on Industrialization will meet again in late September in Washington.

318

In addition, the working group on Manpower and Education agreed that:

1) In August, the U.S. will send three technical experts to Saudi Arabia to evaluate current vocational training, including on-the-job training, and to develop a proposal for the establishment of technical assistance for additional training programs;

2) In September, the U.S. will send five experts to evaluate the overall Saudi educational system and recommend full assistance projects to implement improvements in the system;

3) During September, Saudi experts will be sent to the U.S. to study government employee training and the petrochemical industry; and

4) Finally, during August and September 1974, the U.S. group agreed to mobilize U.S. resources in the following priority areas:

i) Access for Saudi students to U.S. educational facilities, particularly in law and medicine, including medical internships,.

ii) Institutional and program development for Saudi universities and colleges, particularly in business administration, industrial management, extension services (conducting special seminars), and technical services,

iii) Professional recruitment and exchange, including seconding arrangements for American professors to teach in Saudi Arabia, and visiting professors,

iv) Establishment of junior colleges, preferably utilizing existing university facilities, and

v) Development of technical-level training program in the petrochemical field.

We plan to hold the initial meetings of the third and fourth working groups, on Agriculture and Science and Technology, in Saudi Arabia in September. We are hopeful that they will be as successful.

319

KUWAIT

Following our stop in Saudi Arabia, we made a brief visit to Kuwait. Our meetings there were especially significant from a number of viewpoints.

First, they marked the first visit of a high-level delegation to this critical oil-producing country which, in the last decade, has come to occupy a position of growing importance in the world community.

Second, I had extensive and quite frank discussions with Kuwait's Minister of Oil and Finance Abdul Rahman Atiqi regarding the price of oil. There are still considerable differences of opinion on this subject but it was a most constructive dialogue and opened the way for future discussions.

Third, we had an opportunity to discuss the Kuwaitis' investment objectives, as well as their willingness to assist not only developing Arab countries, but countries throughout the world through such vehicles as the Kuwait Fund. The Kuwaitis were most interested in receiving as much information as possible regarding the possibility of Treasury Special Issues. They recognized that the U.S. capital market is the most liquid and stable in the world economic community and were interested in the unique opportunities Special Issues available to the large-scale investor.

With respect to energy issues, I think it was especially significant that they asked that we send Treasury energy experts to give them a thorough briefing on the econometric studies which support our view that lower oil prices are not only in the interests of the consuming nations but the producing nations as well. These meetings took place within days after my departure from Kuwait, and Minister Atiqi asked that we continue such discussions in the future.

In regard to Kuwait, you have asked what discussions the U.S. Government had in relation to the agreement recently reached by the Gulf Oil Corporation to purchase a substantial amount of oil from Kuwait. We learned in early July that an agreement with respect to such a purchase was under discussion between Gulf and the Kuwaiti authorities in the aftermath of the decision by Kuwait not to accept lower bids for this oil in an auction which had recently been held. We then held a number of discussions with the Gulf officials to make known to them our judgment that there is today a surplus of worldwide production relative to current demand and that there is, therefore, strong downward pressure on oil prices. We also pointed out that, while we are cognizant of the threats of various producers to cut their levels of present production in an attempt to sustain the present high price levels, in our judgment such high prices are not in the interest of either the oil producers or the consumers. We were aware that only a fraction of the oil being discussed by Gulf was likely to be

320

shipped to the U.S., since the bulk would be used in overseas operations, but we were also aware of the significant precedent the proposed agreement might have in other areas.

We do not know all of the reasons for Gulf's decision but it is my understanding that among the factors taken into account was the company's interest in ensuring against unfavorable treatment in the future on its equity interest in the Kuwait Oil Company. Gulf receives oil from Kuwait as a result of a 20% interest in the Kuwait Oil Company -- which is, as a result of prior agreements, owned 60% by the Government of Kuwait. The oil received by Gulf as a result of its equity ownership is at a lower effective cost. Further, I understand that Gulf was concerned about being able to participate in future purchases of the oil being sold by the Government of Kuwait from the government's share of the Kuwait Oil Company. It is important to consider very carefully the government's role in such matters.

In my judgment it is proper for our Government to provide advice to U.S. companies, but I do not believe the decision-making responsibility on the operation of their foreign trading activities and their foreign investment should be assumed by the U.S. Government. In addition, the U.S. Government should exercise and does exercise control over the conditions under which any foreign oil -- whether produced in US-owned operations abroad or not -- is permitted to enter into the U.S. For example, we do have in effect today a system of oil import fees which provide a measure of incentive for U.S. consumers to rely on domestic production as compared to foreign production. Further, we are giving continuing attention to such laws and regulations which influence the degree to which the United States becomes dependent on foreign sources of supply. Such an approach is part of our desire to establish an integrated energy policy while allowing individual companies to maintain responsibility to their business operations.

OTHER ENERGY POLICY MATTERS

Before discussing the European part of the trip, I think it would be appropriate to summarize certain other oil policy issues that certainly were underlying my visits in the Mideast.

I am sure that Members of this Subcommittee are well aware of the viewpoint I have expressed about the present surplus and future declining price of oil. But I would like to add to the overview, I have already given publicly.

At various times during my talks, I stressed the fact that cutbacks in production, even apart from the political

321

and security implications for the producers, would turn out to be economically harmful to the producers for three reasons. In the first place, the price effects of such cutbacks would inevitably lead to such further intensification of research and investment relating to alternative sources of energy and to alternatives to energy use that the effect would be to reduce the total value which the exporters would receive for their oil over the life of their producing fields. Cutbacks might bring a higher price for a short period, but they would bring a more than offsetting reduction in revenues for a long time thereafter -- in view of the importers' increased commitment to alternatives.

In the second place, maintenance of present costs of export oil -- even with no increase -- would threaten severe economic -- and, in some cases, political -- damage to a large number of consuming countries to an extent which could not help but cause damaging backlash on the producers as well.

In the third place, our Treasury studies of supply and demand elasticity indicate that reductions in demand need not be very great to reduce the total size of the oil market significantly. Reductions in demand due to present prices coupled with increases in competing supplies will result in a steady reduction in OPEC's market. Thus, Treasury studies show that for a wide range of plausible demand and supply elasticities, recent price increases, if maintained, will cost OPEC a sizeable fraction of its sales.

I sensed real concern in Saudi Arabia and Kuwait about these questions. Both Governments have requested that we continue our discussions of energy issues and, in particular, they are interested in our estimates on the projected U.S. needs for oil from the oil-producing countries.

In conjunction with some of the discussions in the Middle East on the responsibility of oil producers to aid lesser developed nations, I would like to provide the Subcommittee with the following examples of constructive actions taken by the OPEC countries:

 322

1. Six OPEC countries have pledged over $3 billion to a special facility in the IMF to provide supplementary financing for oil importing countries. Four more OPEC countries are considering contributions. It is contemplated that this facility would be somewhat below market rates, but not in the concessional area, and would help both developing countries and developed countries with balance of payments problems arising from increased oil costs.

2. Kuwait is expanding its Economic Development Fund from approximately $600 million to over $3 billion. Assistance from the Fund will no longer be confined to Arab nations, and the new funds are to be lent on a concessional basis. Expansion of operations from current levels may be relatively slow because of the Fund's shortage of qualified technical personnel, but the World Bank has offered technical assistance to overcome this staffing problem.

3. Iran is extending over $1 billion in bilateral project assistance on favorable terms to Middle East and South Asian countries in addition to providing special price and financing arrangements for certain of its oil exports. Saudi Arabia and Iraq are extending similar project and/or oil financing facilities in the region.

4. Venezuela is actively negotiating the establishment of a $500 million trust fund with the Inter-American Bank for concessional lending. Venezuela is also making a further $30 million available to the Caribbean Development Bank.

5. Negotiations were completed in May on a charter for a 24-member Islamic Development Bank, with an initial capital in excess of $1 billion. Formal approval is with an operational target of end-1974.

6. On the basis of less definite information, Middle East OPEC countries appear to be considering special funds for Africa totalling perhaps $500 million, including a $200 million fund which would initially help with financing oil imports and then be recycled into longer term projects.

While we do not have complete and detailed information on all the financial initiatives, I think the preceding list amply indicates that oil producers are channelling a portion of their resources to the poorer countries, that at least a part of these resources is being made available on the favorable terms that the situation requires, and that we can anticipate still more constructive steps in the future.

323

EUROPE

After my discussions in the Mideast, I was pleased to have the opportunity to meet with a number of European leaders. In my view, a close acquaintance, and frequent and informal conversations with those responsible for economic and financial policy abroad are more than a useful tradition -- they are an essential part of our management of an increasingly complex world economy. There is no substitute for a face-to-face discussion of the current problems our nations face domestically as well as internationally. On this occasion, I particularly welcomed the chance to meet Minister Fourcade in France and Minister Colombo in Italy, since both had missed the Committee of Twenty Meeting in Washington in June because of the press of domestic matters.

This Subcommittee has in its previous hearings touched on the problems of re-cycling oil money, and I will offer some comments on that situation in light of my talks in Europe. Many of our discussions in Europe were concentrated on the problems of financing oil surpluses and deficits and the ability of private financial markets to handle the anticipated vast flows of funds. Let me make clear at the outset that there was general recognition that the private markets face a serious challenge. There will be strains in the face of this challenge. But no one was talking about impending failure of financial markets generally or of the monetary system. Nor was there worry that oil monies will be capriciously shifted from one market to another thereby disrupting the foreign exchange and financial markets. All of our experience confirms that the financial authorities of the Arab countries intend to manage their oil revenues in a conservative and responsible manner.

The provlems of re-cycling oil revenues do not arise from this source. They derive rather from the very large magnitudes involved and the abrupt adjustments required to handle such magnitudes. OPEC oil revenues are presently running at an annual rate of some $100 billion. That is on the basis of present oil prices, and subject to a great many uncertainties. Some of these revenues are spent on imports and other current consumption, and the balance

324

is available for investments and loans and so on. There are uncertainties here, too, but again it is convenient to think in terms of perhaps some 60 percent of total OPEC oil revenues available for investment in one form or another -- roughly $60 billion at the present annual rate. By any standards, this represents a lot of money to be re-cycled.

I should caution very strongly, however, against extrapolating these figures into the future. You know already my views about oil prices. In addition, there are estimates which suggest that the OPEC countries may be able to make rapid strides toward expanding their imports and spending their oil revenues. Given these prospects, there is in my view no basis for some of the extreme projections of OPEC investments exceeding the trillion dollar level within a decade or so.

But no one should ignore the potential difficulties facing both the private financial markets and governments in dealing with the large capital flows expected this year. That is the matter which we discussed in Europe.

As far as the private markets were concerned, we were careful to approach this question quite apart from the difficulties of a few individual banks which have over-extended themselves in trading primarily in the forward

exchange markets. Forward trading is important to the proper functioning of the foreign exchange markets, but clearly some of these institutions simply got in over their heads.

Apart from these cases, we observed that the private financial system was doing a remarkable job of handling very large expanded operations. The financial intermediaries are, of course, adjusting their practices in the face of changed circumstances, in particular proving themselves unwilling to pay the same rates for short maturity deposits they cannot easily use as for longer-term deposits they can re-lend prudently. They are also becoming more active as brokers, arranging direct placements. And the lenders are exploring other channels for their funds, thus easing the pressures on the financial intermediaries. I refer here not only to the talks we have been having with Middle Eastern financial authorities about possible purchases of U.S. Special Securities but also about such developments as the recently announced Iranian advances to France and the U.K., and their investment in the Krupp concern in Germany.

It is true, of course, that world capital markets are very large even in comparison to prospective OPEC oil monies. To take the U.S. market alone: U.S. corporate

325

assets are estimated at well in excess of $2 trillion, and equity and debt securities outstanding at the end of last year amounted to some $1.8 trillion. Even the relatively young "Euro Currency" market had at the end of last year, before the new oil prices had much impact on capital flows, grown to over $150 billion. Today, that market probably approaches $200 billion.

As for the role of governments in facilitating the flow of money through private markets and directly in the re-cycling process, the first responsibility of governments is to maintain those economic and financial conditions that are conducive to sound economic activity. In the present circumstances, this means firm policies to deal with inflation and the avoidance of sharp turns in policies. I can see nothing but trouble if we yield to inflation.

A second area of governmental responsibility involves the surveillance and supervision of banking practices. Cases of faulty management in the foreign exchange dealings of some banks, for example, suggest it is a time for careful attention by supervisory authorities to the practices of individual institutions. In my talks in Germany, I was interested to have an explanation of the steps being taken there to obtain better control of bank activities.

Yet another role of governments, or more commonly, of central banks, is that of assuring the smooth functioning of the financial system as a whole. The public authorities cannot be asked to provide compensation for the mistakes of management: They can properly be asked to see that the solvency problems of one institution do not snowball into severe liquidity problems for the entire system.

Beyond facilitating flows of funds through the private markets, there is also a proper role for governments directly in the re-cycling process.

Here I think first of the problems of the countries most seriously affected by the oil price increases. Not surprisingly these are the poorest countries of the world. I am encouraged that the oil exporting countries are beginning to recognize their responsibilities by expanding their assistance, both directly and indirectly, to some of these hardest hit countries. But there remains an urgent need to organize the necessary assistance for some countries where action by the oil exporters and reallocations within existing programs do not bring these problems to a manageable level. Progress toward that end was initiated at the June meeting of the Ministers of the Committee of 20 when it was agreed that a new Development Council would be established and that it would give priority attention to the problems of these most seriously affected countries.

326

That C-20 meeting also agreed on another important step involving governments in the re-cycling process, by establishing the special oil facility in the International Monetary Fund that I mentioned earlier.

Governments and central banks of the main countries have, in addition, an extensive network of swap arrangements developed first in the 1960's. Although not appropriate for long-term financing of oil deficits, they can serve usefully to assist in dealing with short-term pressures in the exchange markets.

The responsibility of governments does not end with these steps. In my conversations abroad, we were very keenly aware of the need to follow closely developments in the markets and, if necessary, develop new mechanisms to channel oil funds. We will be working on contingency plans which will allow us to act quickly and positively should need arise.

The breadth and diversity of U. S. capital markets suggest that we will attract a substantial share of OPEC funds. My European colleagues expressed some concern, in fact that these flows to the U. S. would exceed levels needed to finance our increased oil bills. Although they

recognized there was no evidence that such excessive inflows to the U.S. were in fact occurring they were interested in what our reaction would be.

Our reaction to this potential problem is already a matter of record. Earlier this year we removed our capital controls and opened our markets to foreign borrowers again on the basis prevailing before imposition of restraints over a decade ago. Under these circumstances, should there be substantial investments in U.S. Government securities, this would reduce our official borrowing from domestic sources and free resources for lending abroad. We have offered OPEC nations an opportunity to place a portion of their funds in special U.S. Government securities, and there is deep interest on their part in such placements. But this is a matter of convenience, not an attempt to attract excessive investments here. No special inducements are offered -- merely the opportunity of government-to-government transactions which enable the investor to transact very large sums without influencing the market against himself. It is a facility we would offer -- and have offered -- a number of foreign nations holding very large dollar balances.

3?

To a large extent, I returned from my meetings in the Middle East and Europe reassured that a firm basis exists for dealing with the critical problems of the day in a cooperative framework. We have put the mechanisms in place that will enhance economic development and at the same time establish closer relationships with these countries. Strengthening their economies is in the best interest of the entire world. I believe we have taken the necessary first steps in that effort and now we must work together to implement these initiatives. I am confident that we have the will and the resources to succeed in this critical task.

- oOo -

WS-81

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

32

STATEMENT BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE
THE SUBCOMMITTEE ON THE NEAR EAST AND SOUTH ASIA
THE HOUSE FOREIGN AFFAIRS COMMITTEE
MONDAY AUGUST 12, 1974 AT 2:00 P.M. EDT

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

I am delighted to have the opportunity to be here today to discuss my recent trip to the Middle East and Europe. As a related part of the discussion, I think it is important because of your interests to also cover the effect on the U.S. and world economies of increased capital flows to the oil exporting countries.

The purpose of my trip was to continue our recent diplomatic efforts to achieve a durable and lasting peace in the Mideast. I believe that peace and economic progress are interrelated issues. Without peace, we cannot have economic progress. With economic progress, however, we can minimize the possibility of renewed hostilities. Fortunately, the diplomatic efforts of the President and Secretary Kissinger in recent months have established a framework for peace and stability in the Middle East that hasn't existed for three decades and President Ford intends to pursue this policy in the months ahead. After my own meetings, I am optimistic that we can help the Middle East countries strengthen their economies and achieve needed industrialization and development, which in turn will contribute greatly to the cause of peace.

BACKGROUND

Before outlining the highlights of each of my visits, it would be useful to explain the background of how the trip developed. Prince Fahd of Saudi Arabia visited the United States in early June, and at that time we established a Joint Saudi - U.S. Economic Commission. This was a major step in establishing closer economic relations between the United States and Saudi Arabia---and we agreed to have working groups meet in Saudi Arabia in July. Subsequently---when the President visited Egypt and Israel and suggested that I visit those countries---we thought it would be useful to go to all three Mideast countries and to open the working group sessions in Saudi Arabia. Kuwait was the final stop on the Middle East portion of our trip---and offered us an opportunity to bring the first high-level U.S. delegation to a country which has increasingly occupied a critical role not just in energy affairs, but world economic affairs as well. The balance of our trip was devoted to continuing our economic consultations with finance ministers and other leaders in Germany, Italy, France and England.

As I'll describe in detail, all of our meetings---whether they were with heads of state, finance ministers, petroleum ministers, central bankers, or members of the private sector---were based on mutual concerns: striving for political stability and economic stability...and our shared pursuit for peace and economic prosperity.

329

EGYPT

The visit to Egypt was in many respects one of the most intriguing aspects of our trip. While the visit was aimed at seeing how we could assist the Egyptians in strengthening their economy, I was especially aware of Egypt's unique historical role as a seat of political and cultural leadership in the entire Middle East.

We were there not only to offer assistance, but to learn as much as we possibly could about the dimensions of Egypt's economy, about their emerging economic aspirations, and---most important---about the shape of President Sadat's program to progressively return Egypt's economy to an open, and more liberal, system.

I would especially like to stress the point that in our meetings with President Sadat, Deputy Prime Minister Hegazi, and Finance Minister Fatah, the Egyptian leaders repeatedly reaffirmed their gratitude for President Nixon and Secretary Kissinger's role in securing an initial framework for peace in the Middle East.

Our stay in Egypt was marked with intense, frank and cordial discussions which brought a number of tangible results:

-- In addition to groups that have already been formed in scientific and technological cooperation, medical cooperation, and cultural exchange, we agreed to establish a senior working group---to focus on economic development and investment. A broad cross section of representatives from the Departments of

State, Agriculture, Commerce, Treasury, and other agencies will participate and Assistant Secretary of the Treasury Gerald Parsk will serve as co-chairman. The Egyptians agreed to name a co-chairman shortly.

This work group will contain five subcommittees to cover:

(1) Investment

(2) Domestic development and industrialization

(3) Foreign trade

(4) Agriculture

(5) Suez Canal reconstruction and development

330

-- We exchanged documents activating the Investment Guarantee Agreement in order that the U.S. Overseas Private Investment Corporation (OPIC) may insure new U.S. private investments in Egypt. This step was made possible by the decision announced earlier to establish a Joint Commission to seek settlement of U.S. Private claims against the government of Egypt.

-- We discussed the possible utilization of resources transferred from the U.S. to Egypt through:

(1) the $250 million of economic assistance which has been proposed to the Congress for the current fiscal year and which I urge Congress to act upon favorably

(2) a possible program of PL-480 sales of U.S. agricultural products to Egypt on the basis of long-term loans on favorable terms;

(3) increased use of the facilities of the U.S. Export-Import Bank to assist other U.S. exports to Egypt on a long-term credit basis.

-- We also discussed ways in which we can work together in qualifying Egypt for the maximum in financial support from the World Bank, the International Monetary Fund, and other official agencies both national and international.

-- Not only did we discuss the provision of financial assistance, but also of valuable technical assistance from the U.S. in many fields, including the fields of financial administration, including debt management; tax administration; statistics; agriculture; population control; building and electrical codes and standards; and many other areas.

-- Further, we agreed to explore the possibility of establishing a Project Development Institute which would assist in the development of viable projects by providing a mechanism for feasibility studies, thus serving as an inducement to increased investment in Egypt.

-- We also explored additional ways in which we can work together to attract private investment to Egypt not just from the U.S. but from all parts of the world, particularly investment made jointly with the benefit of U.S. technological contributions. In addition to activation of the Guaranty Program, mentioned above, we offered to assist:

(1) in publicizing the provisions of the new Egyptian Investment Law,

(2) in making widely known those areas in which Egyptian authorities believe there are promising opportunities for investment in Egypt, and

 331

(3) by negotiating a tax treaty to provide a secure base for investor activity.

After this first visit, I have concluded that there is great potential for investment in Egypt. They want investment and are looking for ways to attract it. For instance, while we were in Egypt, Dr. Hegazi announced the acceptance of permits from four major U.S. banks to establish offices in Egypt. This was a most significant indicator of Egypt's commitment to attracting U.S. investment and of moving to liberalize their economy.

As you know, Egyptian Foreign Minister Fahmi is leading a high level delegation that is meeting here in Washington this week. In addition, members of Minister Fahmi's delegation will be meeting Assistant Secretary Parsky to discuss areas of economic and financial cooperation.

In my own view, this is further evidence of our common commitment to ensure that the spirit and momentum of our initial meetings in Cairo last month is carried forth.

ISRAEL

After my talks in Egypt, I visited Israel. During our one and a half days of intensive consultations with Prime Minister Rabin, and other key members of the Israeli Cabinet, we moved in a deliberate fashion to find ways to attract investment to Israel and to expand trade with the U.S. To assist in these efforts we took the following actions:

-- established a Joint U.S.-Israel Committee on Trade and Investment co-chaired by Finance Minister Rabinowitz and me. We also agreed to establish four subcommittees dealing with a) investment, b) trade, c) raw materials, and d) research and development.

-- invited Finance Minister Rabinowitz to visit the U.S. for the first meeting of the Joint Committee in early November and he accepted.

-- agreed to explore ways to establish a Joint U.S.-Israel Economic Council consisting of private U.S. businessmen and Israeli private business and government representatives.

We indicated that we are prepared to assist Israel by providing a broad-range of technical assistance and expertise. We also agreed to explore the possibility

332

of a tax treaty and other incentives that may stimulate private investment in Israel

I believe my visit to Israel demonstrated that our new economic relationships in the other areas of the Middle East in no way signify a diminution of our sensitivities to Israel's needs and our desire to work cooperatively with them.

SAUDI ARABIA

My visit to Saudi Arabia, which followed the talks in Israel, was part of our continuing efforts to establish a closer economic relationship with the Saudis. The trip followed the President's June meeting in that country, as well as Prince Fahd's June visit to Washington---when we established the Joint Saudi-U.S. Economic Commission and the Joint Working Groups to deal with the specific areas of industrialization, manpower and education, science and technology and agriculture.

At the outset, it is important to point out that Saudi Arabia's growing accumulation of monetary reserves---which today exceed their ability to absorb them domestically---has confronted them with a two-part challenge:

First, how can they spend their resources at home in such a way as to diversify their economy and industrialize their country, so that their reliance on oil will be diminished. Make no mistake about it, the Saudis are looking beyond the day of oil primacy.

Second, how can they invest their funds abroad in a fashion that will maximize profit without creating unwieldy and unwanted pressures on the world monetary system.

During the visit, we held intense and broad-ranging discussions not only on the economic goals of Saudi Arabia but also on their investment objectives as well. We outlined a proposal for investment in U.S. Treasury Special Issues, and began an initial discussion of the advantages both countries would share in negotiating a tax treaty.

Further, we discussed the impact of world oil prices on the developed and less developed countries. They recognize the effects of high oil prices and have clearly been working toward achieving more reasonable prices. In this regard I believe it's important to note that during our visit, Oil Minister Yamani announced the Saudis' intention to hold an oil auction in August. The amount of oil to be auctioned is, at this point, uncertain, but we received assurances that the bid price will be accepted.

333

Finally, I opened the initial meeting of the Joint Working Group on Industrialization. This group and the group focusing on Manpower and Education met for a week after I left. These groups had representation from our Departments of State, Commerce, Labor, HEW, and AID, and Assistant Secretary of the Treasury Gerald Parsky remained behind to coordinate both groups. I believe these groups accomplished a great deal during these first meetings. Let me briefly outline what was agreed to:

1) We will enter into a comprehensive U.S. Government-Saudi Technical Cooperation Agreement for reimbursement of technical services to our government;

2) The U.S. Government will assign a number of U.S. Government experts to work full time in Saudi Arabia as part of the Joint Commission effort;

3) During August, the U.S. Government will send experts to Saudi Arabia for a temporary period

i) to improve the Saudi statistical and industrial information base,

ii) to advise on customs,

iii) to improve on port management, and

iv) to advise on environmental and pollution standards.

4) During September, the U.S. Government will send additional experts for a temporary period

i) to improve standards for industrial construction,

ii) to advise on the development of marine fisheries,

iii) to advise on establishment of international standards for protection of patents and copyrights, and

iv) to advise on the improvement of communication facilities.

5) The U.S. Corps of Engineers will be requested to expand its role beyond that now performed for the Saudi Ministry of Defense to assist on important infrastracture projects needed for industrialization in Saudi Arabia.

6) Two Saudi representatives will visit TVA during the next two months to recommend the types of TVA assistance needed in the Saudi program to increase fertilizer production.

7) Finally, the Joint Working Group on Industralization will meet again in late September in Washington.

334

In addition, the working group on Manpower and Education agreed that:

1) In August, the U.S. will send three technical experts to Saudi Arabia to evaluate current vocational training, including on-the-job training, and to develop a proposal for the establishment of technical assistance for additional training programs;

2) In September, the U.S. will send five experts to evaluate the overall Saudi educational system and recommend full assistance projects to implement improvements in the system;

3) During September, Saudi experts will be sent to the U.S. to study government employee training and the petrochemical industry; and

4) Finally, during August and September 1974, the U.S. group agreed to mobilize U.S. resources in the following priority areas:

i) Access for Saudi students to U.S. educational facilities, particularly in law and medicine, including medical internships,

ii) Institutional and program development for Saudi universities and colleges, particularly in business administration, industrial management, extension services (conducting special seminars), and technical services,

iii) Professional recruitment and exchange, including seconding arrangements for American professors to teach in Saudi Arabia, and visiting professors,

iv) Establishment of junior colleges, preferably utilizing existing university facilities, and

v) Development of technical-level training program in the petrochemical field.

We plan to hold the initial meetings of the third and fourth working groups, on Agriculture and Science and Technology, in Saudi Arabia in September. We are hopeful that they will be as successful.

335

KUWAIT

Following our stop in Saudi Arabia, we made a brief visit to Kuwait. Our meetings there were especially significant from a number of viewpoints.

First, they marked the first visit of a high-level delegation to this critical oil-producing country which, in the last decade, has come to occupy a position of growing importance in the world community.

Second, I had extensive and quite frank discussions with Kuwait's Minister of Oil and Finance Abdul Rahman Atiqi regarding the price of oil. There are still considerable differences of opinion on this subject but it was a most constructive dialogue and opened the way for future discussions.

Third, we had an opportunity to discuss the Kuwaitis' investment objectives, as well as their willingness to assist not only developing Arab countries, but countries throughout the world through such vehicles as the Kuwait Fund.

The Kuwaitis were most interested in receiving as much information as possible regarding the possibility of Treasury Special Issues. They recognized that the U.S. capital market is the most liquid and stable in the world economic community and were interested in the unique opportunities Special Issues avail to the large-scale investor.

With respect to energy issues, I think it was significant that they asked that we send Treasury energy experts to give them a thorough briefing on the econometric studies which support our view that lower oil prices are not only in the interests of the consuming nations, but the producing nations as well. These meetings took place within days after my departure from Kuwait.

ENERGY POLICY MATTERS

Before discussing the European part of the trip, I think it would be appropriate to summarize certain oil policy issues that certainly were underlying my visits in the Mideast.

I am sure that Members of this Subcommittee are well aware of the viewpoint I have expressed about the present surplus and future declining price of oil. But I would like to add to the overview, I have already given publicly.

At various times during my talks, I stressed the fact that cutbacks in production, even apart from the political and security implications for the producers, would turn out to be economically harmful to the producers for three reasons. In the first place, the price effects of such cutbacks would inevitably lead to such further intensification of research and investment relating to alternative sources of energy and to alternatives to energy use that the effect would be to reduce the total value which the exporters

336

would receive for their oil over the life of their producing fields. Cutbacks might bring a higher price for a short period, but they would bring a more than offsetting reduction in revenues for a long time thereafter -- in view of the importers' increased commitment to alternatives.

In the second place, maintenance of present costs of export oil -- even with no increase -- would threaten severe economic -- and, in some cases, political -- damage to a large number of consuming countries to an extent which could not help but cause damaging backlash on the producers as well.

In the third place, our Treasury studies of supply and demand elasticity indicate that reductions in demand need not be very great to reduce the total size of the oil market significantly. Reductions in demand due to present prices coupled with increases in competing supplies will result in a steady reduction in OPEC's market. Thus, Treasury studies show that for a wide range of plausible demand and supply elasticities, recent price increases, if maintained, will cost OPEC a sizeable fraction of its sales.

I sensed real concern in Saudi Arabia and Kuwait about these questions. Both Governments have requested that we continue our discussions of energy issues and, in particular, they are interested in our estimates on the projected U.S. needs for oil from the oil-producing countries.

In conjunction with some of the discussions in the Middle East on the responsibility of oil producers to aid lesser developed nations, I would like to provide the Subcommittee with the following examples of constructive actions taken by the OPEC countries:

337

1. Six OPEC countries have pledged over $3 billion to a special facility in the IMF to provide supplementary financing for oil importing countries. Four more OPEC countries are considering contributions. It is contemplated that this facility would be somewhat below market rates, but not in the concessional area, and would help both developing countries and developed countries with balance of payments problems arising from increased oil costs.

2. Kuwait is expanding its Economic Development Fund from approximately $600 million to over $3 billion. Assistance from the Fund will no longer be confined to Arab nations, and the new funds are to be lent on a concessional basis. Expansion of operations from current levels may be relatively slow because of the Fund's shortage of qualified technical personnel, but the World Bank has offered technical assistance to overcome this staffing problem.

3. Iran is extending over $1 billion in bilateral project assistance on favorable terms to Middle East and South Asian countries in addition to providing special price and financing arrangements for certain of its oil exports. Saudi Arabia and Iraq are extending similar project and/or oil financing facilities in the region.

4. Venezuela is actively negotiating the establishment of a \$500 million trust fund with the Inter-American Bank for concessional lending. Venezuela is also making a further \$30 million available to the Caribbean Development Bank.

5. Negotiations were completed in May on a charter for a 24-member Islamic Development Bank, with an initial capital in excess of \$1 billion. Formal approval is with an operational target of end-1974.

6. On the basis of less definite information, Middle East OPEC countries appear to be considering special funds for Africa totalling perhaps \$500 million, including a \$200 million fund which would initially help with financing oil imports and then be recycled into longer term projects.

While we do not have complete and detailed information on all the financial initiatives, I think the preceding list amply indicates that oil producers are channelling a portion of their resources to the poorer countries, that at least a part of these resources is being made available on the favorable terms that the situation requires, and that we can anticipate still more constructive steps in the future.

338

EUROPE

After these discussions in the Midcast, I was pleased to have the opportunity to meet with a number of European leaders. In my view, a close acquaintance, and frequent and informal conversations with those responsible for economic and financial policy abroad are more than a useful tradition -- they are an essential part of our management of an increasingly complex world economy. There is no substitute for a face-to-face discussion of the current problems our nations face domestically as well as internationally. On this occasion, I particularly welcomed the chance to meet Minister Fourcade in France and Minister Colombo in Italy, since both had missed the Committee of Twenty Meeting in Washington in June because of the press of domestic matters.

This Subcommittee in the past has expressed specific interest in the problems of re-cycling oil money, and I will offer some comments on that situation in light of my talks in Europe. But I do at the outset want to make clear that this was not the only topic of concern -- specifically, the problem of inflation was very much of the minds of the leaders with whom I spoke.

Inflation is the number one economic problem facing the world today. All of Europe is experiencing inflation rates unacceptable by past standards. And in a world grown increasingly interdependent through rapid growth of international commerce, it is increasingly recognized that we all share a common interest in the success of each other's anti-inflationary policies.

Inflation rates are too high everywhere. But they differ widely from country to country. Our record has not been good. But consumer prices have been rising even faster in Italy, in the United Kingdom and in France. And even those countries can feel some relief that they are not experiencing the extraordinarily rapid increases that Japan has been suffering.

It was the German experience which particularly drew my attention. That country has within living memory suffered most severely from uncontrolled inflation and accordingly one finds there a low tolerance for inflation and strong support for policies of restraint. The German authorities have for an extended time followed firm policies of demand management. I am convinced that these policies explain why inflation in Germany is less virulent than in other countries in a fundamentally similar situation.

Our discussions in Europe did focus on the problems of financing oil surpluses and deficits and the ability of private financial markets to handle the anticipated vast flows of funds. Let me make clear at the outset that there was general recognition that the private markets face a serious challenge. There will be strains in the face of this challenge. But no one was talking about impending failure of financial markets generally or of the monetary system. Nor was there worry that oil monies will be capriciously shifted from one market to another thereby disrupting the foreign exchange and financial markets. All of our experience confirms that the financial authorities of the Arab countries intend to manage their oil revenues in a conservative and responsible manner.

The problems of re-cycling oil revenues do not arise from this source. They derive rather from the very large magnitudes involved and the abrupt adjustments required to handle such magnitudes. OPEC oil revenues are presently running at an annual rate of some $100 billion. That is on the basis of present oil prices, and subject to a great many uncertainties. Some of these revenues are spent on imports and other current consumption, and the balance

is available for investments and loans and so on. There are uncertainties here, too, but again it is convenient to think in terms of perhaps some 60 percent of total OPEC oil revenues available for investment in one form or another -- roughly $60 billion at the present annual rate. By any standards, this represents a lot of money to be re-cycled.

I should caution very strongly, however, against extrapolating these figures into the future. You know already my views about oil prices. In addition, there are estimates which suggest that the OPEC countries may be able to make rapid strides toward expanding their imports and spending their oil revenues. Given these prospects, there is in my view no basis for some of the extreme projections of OPEC investments exceeding the trillion dollar level within a decade or so.

But no one should ignore the potential difficulties facing both the private financial markets and governments in dealing with the large capital flows expected this year. is the matter which we discussed in Europe.

As far as the private markets were concerned, we were careful to approach this question quite apart from the difficulties of a few individual banks which have over-extended themselves in trading primarily in the forward

exchange markets. Forward trading is important to the proper functioning of the foreign exchange markets, but clearly some of these institutions simply got in over their heads.

Apart from these cases, we observed that the private financial system was doing a remarkable job of handling very large expanded operations. The financial intermediaries are, of course, adjusting their practices in the face of changed circumstances, in particular proving themselves unwilling to pay the same rates for short maturity deposits they cannot easily use as for longer-term deposits they can re-lend prudently. They are also becoming more active as brokers, arranging direct placements. And the lenders are exploring other channels for their funds, thus easing the pressures on the financial intermediaries. I refer here not only to the talks we have been having with Middle Eastern financial authorities about possible purchases of U.S. Special Securities but also about such developments as the recently announced Iranian advances to France and the U.K., and their investment in the Krupp concern in Germany.

It is true, of course, that world capital markets are very large even in comparison to prospective OPEC oil monies. To take the U.S. market alone: U.S. corporate

assets are estimated at well in excess of $2 trillion, and equity and debt securities outstanding at the end of last year amounted to some $1.8 trillion. Even the relatively young "Euro Currency" market had at the end of last year, before the new oil prices had much impact on capital flows, grown to over $150 billion. Today, that market probably approaches $200 billion.

As for the role of governments in facilitating the flow of money through private markets and directly in the re-cycling process, the first responsibility of governments is to maintain those economic and financial conditions that are conducive to sound economic activity. In the present circumstances, this means firm policies to deal with inflation and the avoidance of sharp turns in policies. I can see nothing but trouble if we yield to inflation.

A second area of governmental responsibility involves the surveillance and supervision of banking practices. Cases of faulty management in the foreign exchange dealings of some banks, for example, suggest it is a time for careful attention by supervisory authorities to the practices of individual institutions. In my talks in Germany, I was interested to have an explanation of the steps being taken there to obtain better control of bank activities.

Yet another role of governments, or more commonly, of central banks, is that of assuring the smooth functioning of the financial system as a whole. The public authorities cannot be asked to provide compensation for the mistakes of management: They can properly be asked to see that the solvency problems of one institution do not snowball into severe liquidity problems for the entire system.

Beyond facilitating flows of funds through the private markets, there is also a proper role for governments directly in the re-cycling process.

Here I think first of the problems of the countries most seriously affected by the oil price increases. Not surprisingly these are the poorest countries of the world. I am encouraged that the oil exporting countries are beginning to recognize their responsibilities by expanding their assistance, both directly and indirectly, to some of these hardest hit countries. But there remains an urgent need to organize the necessary assistance for some countries where action by the oil exporters and reallocations within existing programs do not bring these problems to a manageable level. Progress toward that end was initiated at the June meeting of the Ministers of the Committee of 20 when it was agreed that a new Development Council would be established and that it would give priority attention to the problems of these most seriously affected countries.

That C-20 meeting also agreed on another important step involving governments in the re-cycling process, by establishing the special oil facility in the International Monetary Fund that I mentioned earlier.

Governments and central banks of the main countries have, in addition, an extensive network of swap arrangements developed first in the 1960's. Although not appropriate for long-term financing of oil deficits, they can serve usefully to assist in dealing with short-term pressures in the exchange markets.

The responsibility of governments does not end with these steps. In my conversations abroad, we were very keenly aware of the need to follow closely developments in the markets and, if necessary, develop new mechanisms to channel oil funds. We will be working on contingency plans which will allow us to act quickly and positively should need arise.

The breadth and diversity of U. S. capital markets suggest that we will attract a substantial share of OPEC funds. My European colleagues expressed some concern, in fact that these flows to the U. S. would exceed levels needed to finance our increased oil bills. Although they

342

recognized there was no evidence that such excessive inflows to the U.S. were in fact occurring, they were interested in what our reaction would be.

Our reaction to this potential problem is already a matter of record. Earlier this year we removed our capital controls and opened our markets to foreign borrowers again on the basis prevailing before imposition of restraints over a decade ago. Under these circumstances, should there be substantial investments in U.S. Government securities, this would reduce our official borrowing from domestic sources and free resources for lending abroad. We have offered OPEC nations an opportunity to place a portion of their funds in special U.S. Government securities, and there is deep interest on their part in such placements. But this is a matter of convenience, not an attempt to attract excessive investments here. No special inducements are offered -- merely the opportunity of government-to-government transactions which enable the investor to transact very large sums without influencing the market against himself. It is a facility we would offer -- and have offered -- a number of foreign nations holding very large dollar balances.

To a large extent, I returned from my meetings in the Middle East and Europe reassured that a firm basis exists for dealing with the critical problems of the day in a cooperative framework. We have put the mechanisms in place that will enhance economic development and at the same time establish closer relationships with these countries. Strengthening their economies is in the best interest of the entire world. I believe we have taken the necessary first steps in that effort and now we must work together to implement these initiatives. I am confident that we have the will and the resources to succeed in this critical task.

- o0o -

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

343

August 12, 1974

MEMORANDUM FOR ALL TREASURY PERSONNEL

President Ford has asked me to remain in his Cabinet as Secretary of the Treasury and I have accepted.

I would like to assure you all that the Treasury Department will continue to perform its strong role in economic policy and will maintain its preeminent position as an outstanding government institution.

We face critical domestic and international issues in the weeks ahead and we in the Treasury have been asked to assume a leadership role. We must respond and I look forward to continuing to work with all of you in that effort.

William E. Simon

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

344

FOR RELEASE 6:30 P.M. August 12, 1974

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $ 2.8 billion of 13-week Treasury bills and for $2.0 billion of 26-week Treasury bills, both series to be issued on August 15, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing November 14, 1974:		26-week bills maturing February 13, 1975	
	Price	Equivalent Annual Rate	Price	Equivalent Annual Rate
High	97.806 a/	8.680%	95.614 b/	8.676%
Low	97.777	8.794%	95.586	8.731%
Average	97.785	8.763% 1/	95.592	8.719% 1/

1/ Excepting 1 tender of $10,000

2/ Excepting 2 tenders totaling $20,000

Tenders at the low price for the 13-week bills were allotted 82%.
Tenders at the low price for the 26-week bills were allotted 35%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 49,375,000	$ 36,540,000	$ 28,445,000	$ 16,565,000
New York	3,303,455,000	2,320,310,000	2,850,205,000	1,703,580,000
Philadelphia	42,690,000	34,850,000	60,465,000	14,905,000
Cleveland	94,965,000	43,955,000	69,325,000	28,675,000
Richmond	97,935,000	59,275,000	67,285,000	27,785,000
Atlanta	37,385,000	32,620,000	26,255,000	22,630,000
Chicago	280,985,000	97,240,000	222,980,000	70,870,000
St. Louis	52,525,000	34,425,000	52,575,000	31,025,000
Minneapolis	15,040,000	2,590,000	16,345,000	4,115,000
Kansas City	52,185,000	35,870,000	45,345,000	27,695,000
Dallas	33,615,000	22,765,000	25,855,000	15,855,000
San Francisco	200,255,000	80,495,000	182,035,000	36,980,000
TOTALS	$4,260,410,000	$2,800,935,000 c/	$3,647,115,000	$2,000,680,000 d/

c/ Includes $ 463,185,000 noncompetitive tenders accepted at average price.
d/ Includes $ 290,720,000 noncompetitive tenders accepted at average price.
1/ These rates are on a bank-discount basis. The equivalent coupon-issue yields are 9.09% for the 13-week bills, and 9.25% for the 26-week bills.

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

345

FOR RELEASE AT 10:00 A.M.
TUESDAY, AUGUST 13, 1974

STATEMENT OF THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON GOVERNMENT REGULATION
OF THE SENATE SELECT COMMITTEE ON SMALL BUSINESS
WASHINGTON, D.C.
AUGUST 13, 1974

Mr. Chairman and Members of this Subcommittee:

I am pleased to participate in your hearings on oil industry profits, the future capital requirements in the energy sector, and the effects of these on small businesses.

I have shared your concern about the recent enormous increases in oil company profits and about the many other important issues in these areas. It was for this reason that we initiated a special study of oil industry profits that I shall report on shortly. I am concerned also, because our opportunities to reach sound public policies in these areas are being seriously threatened by a shortage of accurate information and a surplus of misinformation. The importance of the need for an enormous volume of new capital investment in the energy complex over the next

WS-84

decade is -- now that the Arab oil embargo is behind us -- being given inadequate attention, in part because of public apathy.

At the same time, the facts about the profitability of the oil industry are being obscured by a smokescreen of hyperbole and demagoguery -- from both sides. For example, much of the raw material for this smokescreen has come from the reports of the oil companies on their profits for 1973 and early 1974, which in almost every case showed very large increases. The analysis of these reports typically began and ended with a simple comparison to 1972 and the first half of 1973, and failed to consider the fact that in the earlier period the industry experienced its lowest profit return on investment since 1964. I mention this not to suggest that all of the recent price and profit increases are justified, but rather to illustrate the need for a proper perspective in judging them.

I do not come before you as a champion of the oil industry. I believe my past record, both at the Federal Energy Office and in the Treasury, has established that fact fully. From the beginning, I have been a strong supporter of the proposed tax on windfall profits in the oil industry put forward by the Administration. I remain a strong supporter of that proposal. My purpose here today

346

is only to present to the Committee some of the relevant facts, in an appropriate perspective, on the issues under study, as best we know them at this time. Only with full understanding of these issues can the Administration and the Congress shape our energy policies to properly serve the best long-run interests of the American consumer.

Oil Industry Profitability

The oil industry in America has long been a very large industry and it has earned, historically as well as presently, a high dollar volume of profits. This fact is hardly new or surprising; in fact, it is most ordinary in view of the long and vigorous growth in demand for petroleum products by the consumer and by industry generally, and especially in view of the massive amounts of capital and other resources employed by the industry.

To put oil industry profits in a proper perspective, therefore, it is necessary to compare the dollar profits of the industry with the volume of investment -- to calculate the percentage return on investment -- and then to compare this ratio for the oil industry against the same ratio for other industries over a period of years. Comparisons of this sort are shown in Table 1 for 29 manufacturing industries, based on data collected by the Federal Trade Commission. These comparisons cover the past three years, five years, ten years and sixteen years.

For the sixteen-year span, 1958-1973, oil industry profits have averaged 10.0 percent of invested capital, compared to an average of 9.3 percent for all industries over this same period of time. For the other, shorter periods, the record is very similar: the rate of profitability has been close to 10 percent and has been consistently higher than the average for all industries, but by a fairly narrow margin. Although higher than average, the rate of return for the oil industry is closer to the average than it is to the rates of return achieved by the industries at the top of the list. In terms of rank, the oil industry has been in eighth or ninth place among the 29 industries covered by the FTC data during each of the periods shown on Table 1. In historical perspective, then, the profitability of the oil industry has been in the central range of the profit performance of American business generally.

The past year or so, however, has appeared to be a different story. Oil companies reported extremely large increases in profits. According to the tabulation of company reports prepared by the First National City Bank of New York, oil industry profits in the first half of 1974 increased by 60 percent over the same period of 1973. This percentage increase is not the largest increase recorded for an industry -- mining showed a gain of 102 percent, and both steel and non-

 347

ferrous metals recorded increases of 83 percent in profits during that period -- but it is more than twice as large as the 26 percent increase reported for the total economy.

This surge in profits has led some people to conclude that the petroleum companies have taken unfair advantage of the Arab oil embargo and raised prices more than is justified by the increase in the price of world crude oil. To study this matter, the Treasury Department obtained detailed information on profits for 1973 and early 1974 from 19 of the largest integrated oil companies in the United States. With this data, we were able to make a more careful analysis of the source of the increase than is possible from conventional sources. As is well known, the oil industry obtains profits from a number of different operations, other than the basic business of supplying petroleum products to the American people. These special areas, some of which had a very major impact on the profits record of the industry during 1973 and 1974, include the following:

-- Inventory profits. When commodity prices rise, the petroleum inventories held by a company increase in value proportionately. When sold, these generate an inventory profit equal to the difference between the historical cost and the replacement cost of the crude oil. Inventory profits are real and desirable -- in the same sense as a capital gain on one's own home -- but they have two special characteristics that differentiate them sharply from operating profits. First, inventory profits are one-time events that do not recur, unless a further rise in crude oil prices takes place. Second, in an ongoing operation the crude oil inventories that generate the inventory profits must be replaced at a higher price, which means that the inventory profits do not generate a cash flow that can be used for investment in new capital facilities or for other ongoing corporate purposes. Furthermore, corporate income taxes must be paid on inventory profits, which reduces the cash flow available for reinvestment.

-- Gains on currency fluctuations. Many petroleum companies do a large volume of business overseas and some hold sizeable amounts of liquid assets abroad. At the end of each accounting period, it is customary accounting practice to translate foreign assets and income into U.S. dollars for reporting purposes. When the dollar was devalued in 1973, most foreign currencies were suddenly worth more dollars than before. Consequently, subsequent translation of foreign assets and income into dollars produced sizeable currency gains for many U.S. petroleum companies. Like inventory profits, these gains from currency fluctuations are one-time events that will not be repeated, unless the U.S. dollar should again float downward in value against the foreign currencies. And if the U.S. dollar strengthens, the companies would experience currency losses on the foreign assets and income they have.

-- Profits on tanker operations. Tanker rates soared to record levels in 1973 from rather depressed levels in 1972, which brought a substantial surge in profits on the tanker operations of some oil companies in 1973 and early 1974.

-- Profits on chemical operations. The strong cyclical upturn in demand for petrochemicals in 1973 and early 1974 provided a large lift in the profits of these nonpetroleum operations of a number of oil companies.

-- Other nonpetroleum profits. Some of the oil companies have coal, nuclear, fertilizer, and other nonpetroleum operations, the profits of which should be separated from the profits of the basic, ongoing oil operations for analytical purposes. It turns out, however, that these other nonpetroleum operations produced losses for the petroleum industry in early 1974.

The information obtained by the Treasury on the 19 large petroleum companies provides a detailed breakdown of the profits (and in a few cases losses) traceable to each of these special areas, which then can be separated from the total profits of the firms to show the earnings from the mainstream of the business, the ongoing petroleum operations. The detailed figures are shown in Table 2, attached.

For the first quarter of 1974, the 19 large oil companies in our survey reported a $1.3 billion increase in total consolidated corporate profits from the first quarter of 1973, a gain of 76 percent. As expected, inventory profits increased enormously: from $14 million to $712 million. This revaluation of inventories accounted for more than half the gain in total profits. Profits on chemical operations also showed a very large increase, and accounted for 17 percent of the increase in total profits. Gains on currency fluctuations and profits on tanker operations were also up sharply from 1973, although both these areas are a relatively small part of the industry and thus only contributed modestly to the total picture.

Together, the profits in these five special areas -- which are nonrecurring events or are outside of the industry's primary function of supplying the American economy with the petroleum products it needs -- accounted for three-quarters of the increase in the total profits of the 19 oil companies. After these special areas are separated out, the mainstream of the business, the ongoing petroleum operations, is seen to have recorded an increase in profits of 21 percent. The increase in the earnings of these companies from their ongoing petroleum operations, although still very big -- and no doubt higher than the profit gains of most other industries calculated on a comparable basis -- is more in line with the experience in the rest of the economy. Overall, it is fair to conclude, I believe, that the detailed breakdown of the profits data provided by the 19 companies puts a much different perspective on the profitability of the industry in early 1974 than is indicated solely by figures on total consolidated profits.

It is also worth considering briefly the profits outlook for the remainder of 1974. Very recently, costs have been rising more rapidly than prices in the oil industry.

Foreign taxes went up a bit further on June 30. Inventory profits are fading, as the supplies of low-cost crude are depleted. Based on these developments, one investment analyst has publicly estimated that fourth-quarter profits of the international oil companies could decline 25 percent from the comparable 1973 period.

In addition, in some parts of the world companies have been forced to surrender their equity interests in exchange for promises of compensation that are far from satisfying. These losses are not reflected in their current income statements, but will seriously affect their future return on investment.

Windfall Profits

Last winter, when the Organization of Arab Petroleum Exporting Countries cut back production -- causing world oil prices to rise -- and embargoed shipments to the United States, it was apparent that the effects of this decrease in world oil supplies and increase in prices would speedily reach our shores. It was equally apparent that the events precipitating this crisis in world oil markets represented no fundamental change in the underlying market forces. Oil did not suddenly cost more because costs of production had risen or because long-run prospects for oil production had worsened; it cost more because a small group of countries presently dominant in world markets overtly reduced production and deliberately created an aura of uncertainty about their future plans.

In these circumstances, owners of crude oil reserves all over the world became the beneficiaries of windfall gains. Oil which had been produced at prices sufficient to cover pre-embargo costs was suddenly selling at tripled prices. Some investments in crude oil production had been made on the expectation that future prices would be well above pre-embargo levels, but the magnitude of the price increase and its suddeness were almost wholly unanticipated.

In the OPEC countries, much of this increase in price was absorbed by increases in host government "takes" in taxes and royalties from the production of oil companies, and still more was absorbed by increased prices demanded by those governments for their "participation" oil. This is the principal reason why, as I noted above, the profits on oil production of the 19 companies increased proportionately less than profits from other sources. In December, 1973, the Administration proposed a profits tax to be imposed on the windfall portion of oil price increases for domestic production, and this was presented to the House Ways and Means

Committee in February.

The proposed tax was formulated to absorb windfalls accruing to oil producers during the next 3-to 5-year period during which we will be expanding domestic production. This tax was designed so that it would automatically disappear over this period in a manner that would not interfere with the expansion of domestic supply needed to increase our degree of self-sufficiency in oil. If that tax with rates ranging up to 85 percent had been promptly enacted as proposed, it would have absorbed much of the estimated $5 billion in windfall oil profits during 1974. Valuable time has been lost since the tax was first proposed. But there is still time remaining before world oil prices stabilize during which the windfall profits tax, as originally proposed, could usefully perform its intended function of restoring public confidence that there is a mutual sharing of hardships during the next 3 to 5 years. Furthermore, the capture of windfall profits by the tax would assure all independents and small businesses in the energy sector who are not producing oil that they will not have a competitive disadvantage with large oil producers that have large windfall profits and cash flows. Thus I remain fully committed to the proposed windfall profits tax.

351

Energy Investment Requirements

The future need for new energy investment is immense throughout the world. Population growth and economic growth make that a virtual certainty. Despite the enormous petroleum reserves already discovered in the Persian Gulf area and many other places, the rapid rise in world demand for energy means that new sources of oil and other forms of energy, many times larger than the reserves now in existence, must be found over the next several decades.

In the United States, in view of our need to become more self-sufficient in energy, the challenge is even greater. There is wide agreement throughout the Nation that we must free ourselves from the threat of economic blackmail. We are all willing to pay the necessarily high price for national security. In the future, therefore, we will not rely on foreign sources for our incremental energy needs and this insures that a very large volume of investment in new energy sources will have to be made in the United States.

A variety of estimates of our future needs for energy capital have been made over the past year. The Administration has undertaken its own study of future capital requirements, for energy and all other purposes, under the leadership of the Council of Economic Advisers.

While the studies that have been completed show some differences, both in methods and results, all agree that the future capital needs for energy are extremely large by any comparison. One representative study estimated the requirements for energy capital in the United States between now and 1985 at $850 billion -- and that study assumed a rate of inflation less than half of what we are now experiencing. This estimate includes:

-- $405 billion for the domestic petroleum industry,

-- $400 billion for the generation and transmission of electricity,

-- $17 billion for the production and processing of uranium,

-- $26 billion for producing and transporting coal.

Investments of this magnitude clearly pose a massive challenge for the future. It will put great stress on our financial markets and on the savings and investment process in our economy. One estimate shows that the proportion of our total capital outlays devoted to energy will have to rise from 21 percent over the past decade to over 30 percent in the next decade. In addition, in view of the vast investment needs of our society for energy and for other

352

purposes as well, I am convinced that we will have to increase substantially the share of our total economic output that is devoted to capital formation.

I believe our economy has the capacity to meet this challenge, although it will not be without effort. In fact, it will require major changes in our policies. I testified on this subject in June before the Subcommittee on Economic Growth of the Joint Economic Committee. My key conclusions were as follows:

-- First and foremost, we must regain control of inflation, which is the bitter enemy of both savings and investment.

-- The economy must have adequate profits, which provide both the incentive and the wherewithal for new investment.

-- We must permit our predominantly private-decision economy to operate freely, so that investors will have the necessary confidence. We must avoid regulation and legislation that is punitive of profits honestly earned. We must not impose artificial Government constraints on the economy, as for example we have done for so many years, and are still doing, in regulating the price of natural gas.

-- We must encourage saving. We must reverse long-held policies that encourage consumption and penalize saving. We must end our policy of consistent budget deficits and shift to consistent surpluses in order to enlarge the flow of savings available to the private sector.

If we make these policy changes, I am persuaded that the demonstrated capacity of the American economy for growth and flexibility will enable us to meet the massive challenge of providing the capital needed to achieve Project Independence and our many other important national goals.

Effects on Small Businesses

The rapid and persistent growth of energy demand over past decades has provided great opportunities for small businesses in all parts of the industry. Although substantial vertical integration has developed, entry into the oil business has been relatively free and there have always been many independent operators in the industry, especially in marketing. These independents have provided vigorous competition for the integrated firms and, in my view, have made a very meaningful contribution to the development of the industry and to the American economy.

 353

This year, however, conditions have changed so markedly in the industry that independent operators have serious problems. Both the Congress and the Administration have structured the Government's energy policies to alleviate those problems. The independent operators will also have to take actions to strengthen themselves -- and I'm pleased to see that some are now doing so.

In considering the role of small businesses in the industry, we should be fully aware that future investment opportunities in the industry are almost without limit. In monetary terms, the largest share of these will be in exploration and development of new energy sources, which will draw on thousands of small businesses for building drilling rigs, seismic mapping and scores of other functions. In addition, there is sure to be a broad range of favorable investment opportunities in the downstream end of the industry.

The funds for these investments will come from many sources. Historically, internally generated funds have always been the major source of new investment. They have, however, never been adequate to meet the full capital requirements of the industry. In the 1950s and 1960s, capital spending exceeded internal cash flow by 10-15 percent. In the early 1970s, however, earnings growth slowed and investment spending accelerated, so that capital outlays exceeded internal cash flow by about 50 percent.

Future investment needs promise to be still larger relative to the supply of capital generated within the industry. One study has concluded that if half of the petroleum industry's capital requirements between now and 1985 are to be provided from profits, those profits would have to grow more than twice as fast in the future as they have in the past. In these circumstances, there will undoubtedly be many good opportunities for new investment money and new investors, large and small, in the industry.

I am a great believer in an open economy. We must be sure that all the economic doors remain open in the petroleum industry, as in all industries. Business ownership must be available to all on equal terms. Looking down the road, it is my view that a multitude of investment opportunities will be open to small businesses in the petroleum industry for a long time ahead.

TABLE 1

RETURN ON INVESTED CAPITAL
MANUFACTURING INDUSTRIES

Industry	16-Year Average 1958-73 PERCENT	RANK	10-Year Average 1964-73 PERCENT	RANK	5-Year Average 1969-73 PERCENT	RANK	3-Year Average 1971-73 PERCENT	RANK
Average, all Manufacturing industries	9.3		9.8		9.4		9.6	
Drugs	16.7	1	17.0	1	17.0	1	16.9	1
Instruments and related products	13.6	2	14.5	2	13.6	2	13.7	2
Motor vehicles and equipment	13.0	3	12.9	3	11.4	4	12.9	3
Tobacco manufacturers	11.8	4	12.0	4	12.0	3	12.3	5
Transportation equipment	11.4	5	11.3	5	9.8	10	10.9	7
Chemicals and allied products	11.0	6	11.1	6	11.1	5	11.6	6
Printing and publishing	10.0	7	10.5	7	10.5	7	10.4	9
PETROLEUM INDUSTRY	10.0	8	10.3	9	10.2	8	10.4	8
Electrical machinery, equipment and supplies	9.7	9	10.0	11	9.5	12	9.6	14
Other machinery	9.6	10	10.4	8	9.7	11	9.8	13
All manufacturing corporations	9.4	11	9.8	12	9.5	13	9.9	11
Basic chemicals	9.3	12	9.3	16	9.0	16	9.6	15
Lumber and wood products except furniture	8.9	13	10.0	10	10.9	6	12.8	4
Food and kindred products	8.8	14	9.3	15	10.0	9	10.0	10
Furniture and fixtures	8.6	15	9.7	13	9.3	15	9.8	12
Rubber and miscellaneous plastic products	8.5	16	8.9	19	8.5	19	9.1	18
Metalworking machinery and equipment	8.4	17	9.5	14	7.5	23	6.4	29
Other fabricated metal products	8.4	18	9.3	17	8.6	18	9.0	19
Stone,clay and glass products	8.3	19	8.3	24	8.3	20	9.3	17
Apparel and other finished products	8.2	20	8.9	18	8.7	17	8.8	20
Miscellaneous manufacturing	8.2	21	8.6	21	8.2	21	8.1	21
Primary nonferrous metals	8.0	22	8.4	23	7.7	22	7.0	25
Alcoholic beverages	7.9	23	8.9	20	9.4	14	9.5	16
Aircraft and parts	7.8	24	8.0	25	6.8	26	7.5	22
Leather and leather products	7.8	25	8.5	22	7.1	25	6.6	27
Paper and allied products	7.6	26	7.8	26	7.5	24	7.4	23
Primary metal industries	7.1	27	7.2	27	6.8	27	6.7	26
Textile mill products	6.6	28	7.2	28	6.6	28	7.1	24
Primary iron and steel	6.4	29	6.4	29	6.1	29	6.5	28

SOURCE: Federal Trade Commission

Table 2

PETROLEUM INDUSTRY PROFITS
19-COMPANY DATA

	First quarter 1973 ($ millions)	First quarter 1974 ($ millions)	Increase $ mill.	Increase percent	Percent of total increase
Total consolidated corporate profits	1,768	3,110	1,341	76	100
Inventory profits	14	712	698	4901	52
Gains on currency fluctuations	16	65	49	315	4
Profits (losses) on tanker operations	(9)	50	59	--	4
Profits on chemical operations	94	315	221	236	17
Other nonpetroleum profits (losses)	7	(27)	(34)	--	(3)
Petroleum profits, ongoing operations	1,646	1,994	348	21	26

Source: Treasury Department Survey

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

355

FOR IMMEDIATE RELEASE August 13, 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 $4,800,000,000, or thereabouts, to be issued August 22, 1974, as follows:

91-day bills (to maturity date) in the amount of $2,800,000,000, or thereabouts, representing an additional amount of bills dated May 23, 1974, and to mature November 21, 1974 (CUSIP No. 912793 UZ7), originally issued in the amount of $1,900,870,000, the additional and original bills to be freely interchangeable.

182-day bills for $2,000,000,000, or thereabouts, to be dated August 22, 1974, and to mature Feburary 20, 1975 (CUSIP No. 912793 VW3).

The bills will be issued for cash and in exchange for Treasury bills maturing August 22, 1974, outstanding in the amount of $4,401,785,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,622,970,000. 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 in denominations of $10,000. $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value) and in book-entry form to designated bidders.

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Monday, August 19, 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 August 22, 1974, in cash or other immediately available funds or in a like face amount of Treasury bills maturing August 22, 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

354

FOR IMMEDIATE RELEASE August 14, 1974

TREASURY ANNOUNCES ACTIONS
ON TWO INVESTIGATIONS UNDER THE
ANTIDUMPING ACT

Assistant Secretary of the Treasury, David R. Macdonald, announced today actions on two investigations under the Antidumping Act of 1921, as amended.

In the first case, a tentative negative determination is being issued, and in the second case, a tentative determination to modify the dumping finding is being published. Notice of these decisions will appear in the Federal Register of Thursday, August 15, 1974.

In the first case, Assistant Secretary Macdonald announced a tentative determination of no sales at less than fair value in the antidumping investigation of 45 R.P.M. Flat Spindle Adapters from the United Kingdom. The merchandise consists of a flat rectangular device which fits over the spindle on a record changer, thereby enabling 45 R.P.M. records to be played in sequence, automatically. Comparisons between exporter's sales price and prices of identical merchandise sold to third countries revealed that the exporter's sales price was higher than third market prices.

During the period of March 31, 1973 through February 28, 1974, sales of flat spindle adapters from the United Kingdom were valued at roughly $1 million.

In the second case, Mr. Macdonald announced a tentative determination to modify the dumping finding on monochrome and color TV sets from Japan with respect to the Sony Corporation of Japan. The Federal Register notice states, in part, that:

Sales of monochrome and color television sets by Sony Corporation since September 1970 have been at not less than fair value, and that firm has given assurances that future sales of monochrome and color television sets to the United States will not be made at less than fair value.

Accordingly, notice is hereby given that the Department of the Treasury intends to modify the finding of dumping with respect to monochrome and color television sets from Japan to exclude those sets produced and sold by Sony Corporation of Japan from the finding.

Interested persons will be given an opportunity to present oral and written views on this decision before Treasury takes final action.

During the period of November 1972 through October 1973, imports of Sony television sets were valued at approximately $82 million, while total imports of television sets from Japan during calendar year 1973 were valued at $276 million.

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

357

FOR RELEASE AT 9:30 A.M. EDT, Wednesday, August 14

STATEMENT BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE
THE SUBCOMMITTEE ON INTERNATIONAL FINANCE AND RESOURCES
OF
THE SENATE FINANCE COMMITTEE
WEDNESDAY, AUGUST 14, 1974, AT 9:30 A.M. EDT

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

I am delighted to have the opportunity to be here today to discuss my recent trip to the Middle East and Europe. As part of such discussion, I think it is important to focus on the effect on the U. S. and world economies of increased capital flows to the oil exporting countries.

The purpose of my trip was to continue our recent diplomatic efforts to achieve a durable and lasting peace in the Mideast. I believe that peace and economic progress are interrelated issues. Without peace, we cannot have economic progress. With economic progress, however, we can minimize the possibility of renewed hostilities. Fortunately, the diplomatic efforts of the President and Secretary Kissinger in recent months have established a framework for peace and stability in the Middle East that hasn't existed for three decades and President Ford intends to pursue this policy in the months ahead. After my own meetings, I am optimistic, that we can help these countries strengthen their economies and achieve needed industrialization and development, which in turn will contribute greatly to the cause of peace.

WS-77

BACKGROUND

Before outlining the highlights of each of my visits, I think it would be useful to explain the background of how the trip developed. Prince Fahd of Saudi Arabia visited the United States in early June, and at that time we established a Joint Saudi-U. S. Economic Commission. This was a major step in establishing closer economic relations between the United States and Saudi Arabia and we agreed to have working groups meet in Saudi Arabia in July. Subsequently, when the President visited Egypt and Israel and suggested that I visit those countries, we thought it would be useful to go to all three Mideast countries and to open the working group sessions in Saudia Arabia. Kuwait was the final stop on the Middle East portion of our trip, -- and offered us an opportunity to bring the first high-level U.S. delegation to a country which has increasingly occupied a critical role not just in energy affairs, but world economic affairs as well. The balance of our trip was devoted to continuing our economic consultations with finance ministers and other leaders in Germany, Italy, France and England.

As I will describe in detail, all of our meetings, whether they were with heads of state, finance ministers, petroleum ministers, central bankers, or members of the private sector, were based on mutual concerns: striving for political stability and economic stability, and our shared pursuit for peace and economic prosperity.

EGYPT

The visit to Egypt was in many respects one of the most intriguing aspects of our trip. While the visit was aimed at seeing how we could assist the Egyptians in strengthening their economy, I was especially aware of Egypt's unique historical role as a seat of political and cultural leadership in the entire Middle East.

We were there not only to offer assistance, but to learn as much as we possibly could about the dimensions of Egypt's economy, about their emerging economic aspirations, and, most important, about the shape of President Sadat's program to progressively return Egypt's economy to an open, and more liberal, system.

I would especially like to stress the point that in our meetings with President Sadat, Deputy Prime Minister Hegazi, and Finance Minister Fatah, the Egyptian leaders repeatedly reaffirmed their gratitude for the President's and Secretary Kissinger's role in securing an initial framework for peace in the Middle East.

Our stay in Egypt was marked with intense, frank and cordial discussions which brought a number of tangible results:

-- In addition to groups that have already been formed in scientific and technological cooperation, medical cooperation, and cultural exchange, we agreed to establish a senior working group to focus on economic development and investment. A broad cross section of representatives from the Departments of State, Agriculture, Commerce, Treasury, and other agencies will participate and Assistant Secretary of the Treasury Gerald Parsky will serve as co-chairman. The Egyptians agreed to name a co-chairman shortly. This work group will contain five subcommittees to cover:

(1) Investment

(2) Domestic development and industrialization

(3) Foreign trade

(4) Agriculture

(5) Suez Canal reconstruction and development

359

-- We exchanged documents activating the Investment Guarantee Agreement in order that the U.S. Overseas Private Investment Corporation (OPIC) may insure new U. S. private investments in Egypt. This step was made possible by the decision announced earlier to establish a Joint Commission to seek settlement of U. S. Private claims against the government of Egypt.

-- We discussed plans for detailed utilization of the transfer of official resources from the U.S. to Egypt through:

(1) the $250 million of economic assistance which has been proposed to the Congress for the current fiscal year and which I urge you to act upon favorable terms;

(2) a program of PL-480 sales of U. S. agricultural products to Egypt on the basis of long-term loans on favorable terms;

(3) increased use of the facilities of the U.S. Export-Import Bank to assist other U.S. exports to Egypt on a long-term credit basis.

-- We also discussed ways in which we can work together in qualifying Egypt for the maximum in financial support from the World Bank, the International Monetary Fund, and other official agencies both national and international.

-- Not only did we discuss the transfer of financial assistance, but also of valuable technical assistance from the U. S. in many fields, including the fields of financial administration, including debt management; tax administration; statistics; agriculture; population control; building and electrical codes and standards; and many other areas.

-- Further, we agreed to explore the possibility of establishing a Project Development Institute which would assist in the development of viable projects by providing a mechanism for feasibility studies, thus serving as an inducement to increased investment in Egypt.

-- We also explored additional ways in which we can work together to attract private investment to Egypt not just from the U.S. but from all parts of the world, particularly investment made jointly with the benefit of U.S. technological contributions. In addition to activation of the Guaranty Program, mentioned above, we offered to assist:

(1) in publicizing the provisions of the new Egyptian Investment Law,

(2) in making widely known those areas in which Egyptian authorities believe there are promising opportunities for investment in Egypt, and

340

(3) by negotiating a tax treaty to provide a secure base for investor activity.

After this first visit, I have concluded that there is great potential in Egypt for investment. They want investment and are looking for ways to attract it. For instance, while we were in Egypt, Dr. Hegazi announced the acceptance of permits from four major U.S. banks to establish offices in Egypt. This was a most significant indicator of Egypt's commitment to attracting U.S. investment and of moving to liberalize their economy.

As you know, Egyptian Foreign Minister Fahmi is leading a high level delegation that is meeting here in Washington this week. In addition, members of Minister Fahmi's delegation will be meeting Assistant Secretary Parsky to discuss areas of economic and financial cooperation.

In my own view, this is further evidence of our common commitment to ensure that the spirit and momentum of our initial meetings in Cairo last month is carried forth.

ISRAEL

After my talks in Egypt, I visited Israel. During our one and a half days of intensive consultations with Prime Minister Rabin, and other key members of the Israeli Cabinet, we moved in a deliberate fashion to find ways to attract investment to Israel and to expand trade with the U.S. To assist in these efforts we took the following actions:

-- established a Joint U.S.-Israel Committee on Trade and Investment co-chaired by Finance Minister Rabinowitz and me. We also agreed to establish four subcommittees dealing with a) investment, b) trade, c) raw materials, and d) research and development.

-- invited Finance Minister Rabinowitz to visit the U.S. for the first meeting of the Joint Committee in early November and he accepted.

-- agreed to explore ways to establish a Joint U.S.-Israel Economic Council consisting of private U.S. businessmen and Israeli private business and government representatives.

We indicated that we are prepared to assist Israel by providing a broad-range of technical assistance and expertise. We also agreed to explore the possibility

341

of a tax treaty and other incentives that may stimulate private investment in Israel.

I believe my visit to Israel demonstrated that our new economic relationships in the other areas of the Middle East in no way signify a diminution of our sensitivities to Israel's needs and our desire to work cooperatively with them.

SAUDI ARABIA

My visit to Saudi Arabia which followed the talks in Israel was part of our continuing efforts to establish a closer economic relationship with the Saudis. The trip followed the President's June meeting in that country, as well as Prince Fahd's June visit to Washington, when we established the Joint Saudi-U.S. Economic Commission and the Joint Working Groups to deal with the specific areas of industrialization, manpower and education, science and technology and agriculture.

At the outset, it is important to point out that Saudi Arabia's growing accumulation of monetary reserves, which today exceed their ability to absorb them domestically has confronted them with a two-part challenge:

First, how can they spend their resources at home in such a way as to diversify their economy and industrialize their country so that their reliance on oil will be diminished. Make no mistake about it, the Saudis are looking beyond the day of oil primacy.

Second, how can they invest their funds abroad in a fashion that will maximize profits without creating unwieldy and unwanted pressures on the world monetary system.

During the visit, we held intense and broad-ranging discussions not only on the economic goals of Saudi Arabia but also on their investment objectives as well. We outlined a proposal for investment in U.S. Treasury Special Issues, and began an initial discussion of the advantages both countries would share in negotiating a tax treaty between the U.S. and their country.

Further, we discussed the impact of world oil prices on the developed and less developed countries. They recognize the effects of high oil prices and have clearly been working toward achieving more reasonable prices. In this regard I believe it's important to note that during our visit, Oil Minister Yamani announced the Saudis' intention to hold an oil auction in August. The amount of oil to be auctioned is, at this point, uncertain, but we received assurances that the bid price will be accepted.

362

Finally, I opened the initial meeting of the Joint Working Group on Industrialization. This group and the group focusing on Manpower and Education met for a week after I left. These groups had representation from our Departments of State, Commerce, Labor, HEW, and AID, and Assistant Secretary of the Treasury Gerald Parsky remained behind to coordinate both groups. I believe these groups accomplished a great deal during these first meetings. Let me briefly outline what was agreed to:

1) We will enter into a comprehensive U.S. Government-Saudi Technical Cooperation Agreement for reimbursement of technical services to our government;

2) The U.S. Government will assign a number of U.S. Government experts to work full time in Saudi Arabia as part of the Joint Commission effort;

3) During August, the U.S. Government will send experts to Saudi Arabia for a temporary period

i) to improve the Saudi statistical and industrial information base,

ii) to advise on customs,

iii) to improve on port management, and

iv) to advise on environmental and pollution standards.

4) During September, the U.S. Government will send additional experts for a temporary period

i) to improve standards for industrial construction,

ii) to advise on the development of marine fisheries,

iii) to advise on establishment of international standards for protection of patents and copyrights, and

iv) to advise on the improvement of communication facilities.

5) The U.S. Corps of Engineers will be requested to expand its role beyond that now performed for the Saudi Ministry of Defense to assist on important infrastructure projects needed for industrialization in Saudi Arabia.

6) Two Saudi representatives will visit the Tennessee Valley Authority within the next two months to recommend the types of TVA assistance needed in the Saudi program to increase fertilizer production.

7) Finally, the Joint Working Group on Industrialization will meet again in late September in Washington.

363

In addition, the working group on Manpower and Education agreed that:

1) In August, the U.S. will send three technical experts to Saudi Arabia to evaluate current vocational training, including on-the-job training, and develop a proposal for the establishment of technical assistance for additional training programs;

2) In September, the U.S. will send five experts to evaluate the overall Saudi educational system and recommend full assistance projects to implement improvements in the system;

3) During September, Saudi experts will be sent to the U.S. to study government employee training and the petrochemical industry; and

4) Finally, during August and September 1974, the U.S. group agreed to mobilize U.S. resources in the following priority areas:

i) Access for Saudi students to U.S. educational facilities, particularly in law and medicine, including medical internships,

ii) Institutional and program development for Saudi universities and colleges, particularly in business administration, industrial management, extension services (conducting special seminars), and technical services,

iii) Professional recruitment and exchange, including seconding arrangements for American professors to teach in Saudi Arabia, and visiting professors,

iv) Establishment of junior colleges, preferably utilizing existing university facilities, and

v) Development of technical-level training program in the petrochemical field.

We plan to hold the initial meetings of the third and fourth working groups, on Agriculture and Science and Technology, in Saudi Arabia in September. We are hopeful that they will be as successful.

364

KUWAIT

Following our stop in Saudi Arabia, we made a brief visit to Kuwait. Our meetings there were especially significant from a number of viewpoints.

First, they marked the first visit of a high-level delegation to this critical oil-producing country which, in the last decade, has come to occupy a position of growing importance in the world community.

Second, I had extensive and quite frank discussions with Kuwait's Minister of Oil and Finance Abdul Rahman Atiqi regarding the price of oil. There are still considerable differences of opinion on this subject but it was a most constructive dialogue and opened the way for future discussions.

Third, we had an opportunity to discuss the Kuwaitis' investment objectives, as well as their willingness to assist not only developing Arab countries, but countries throughout the world through such vehicles as the Kuwait Fund.

The Kuwaitis were most interested in receiving as much information as possible regarding the possibility of Treasury Special Issues. They recognized that the U.S. capital market is the most liquid and stable in the world economic community and were interested in the unique opportunities Special Issues avail to the large-scale investor.

With respect to energy issues, I think it was significant that they asked that we send Treasury energy experts to give them a thorough briefing on the econometric studies which support our view that lower oil prices are not only in the interests of the consuming nations, but the producing nations as well. These meetings took place within days after my departure from Kuwait.

ENERGY POLICY MATTERS

Before discussing the European part of the trip, I think it would be appropriate to summarize certain oil policy issues that certainly were underlying my visits in the Mideast.

I am sure that Members of this Subcommittee are well aware of the viewpoint I have expressed about the present surplus and future declining price of oil. But I would like to add to the overview, I have already given publicly.

At various times during my talks, I stressed the fact that cutbacks in production, even apart from the political and security implications for the producers, would turn out to be economically harmful to the producers for three reasons. In the first place, the price effects of such cutbacks would inevitably lead to such further intensification of research and investment relating to alternative sources of energy and to alternatives to energy use that the effect would be to reduce the total value which the exporters would receive for their oil over the life of their producing fields. Cutbacks might bring a higher price for a short period, but they would bring a more than offsetting reduction in revenues for a long time thereafter -- in view of the importers' increased commitment to alternatives.

In the second place, maintenance of present costs of export oil -- even with no increase -- would threaten severe economic -- and, in some cases, political -- damage to a large number of consuming countries to an extent which could not help but cause damaging backlash on the producers as well.

In the third place, our Treasury studies of supply and demand elasticity indicate that reductions in demand need not be very great to reduce the total size of the oil market significantly. Reductions in demand due to present prices coupled with increases in competing supplies will result in a steady reduction in OPEC's market. Thus, Treasury studies show that for a wide range of plausible demand and supply elasticities, recent price increases, if maintained, will cost OPEC a sizeable fraction of its sales.

I sensed real concern in Saudi Arabia and Kuwait about these questions. Both Governments have requested that we continue our discussions of energy issues and, in particular, they are interested in our estimates on the projected U.S. needs for oil from the oil-producing countries.

In conjunction with some of the discussions in the Middle East on the responsibility of oil producers to aid lesser developed nations, I would like to provide the Subcommittee with the following examples of constructive actions taken by the OPEC countries:

1. Six OPEC countries have pledged over $3 billion to a special facility in the IMF to provide supplementary financing for oil importing countries. Four more OPEC countries are considering contributions. It is contemplated that this facility would be somewhat below market rates, but not in the concessional area, and would help both developing countries and developed countries with balance of payments problems arising from increased oil costs.

2. Kuwait is expanding its Economic Development Fund from approximately $600 million to over $3 billion. Assistance from the Fund will no longer be confined to Arab nations, and the new funds are to be lent on a concessional basis. Expansion of operations from current levels may be relatively slow because of the Fund's shortage of qualified technical personnel, but the World Bank has offered technical assistance to overcome this staffing problem.

3. Iran is extending over $1 billion in bilateral project assistance on favorable terms to Middle East and South Asian countries in addition to providing special price and financing arrangements for certain of its oil exports. Saudi Arabia and Iraq are extending similar project and/or oil financing facilities in the region.

4. Venezuela is actively negotiating the establishment of a $500 million trust fund with the Inter-American Bank for concessinal lending. Venezuela is also making a further $30 million available to the Caribbean Development Bank.

5. Negotiations were completed in May on a charter for a 24-member Islamic Development Bank, with an initial capital in excess of $1 billion. Formal approval is expected -- with an operational target of end-1974.

6. On the basis of less definite information, Middle East OPEC countries appear to be considering special funds for Africa totalling perhaps $500 million, including a $200 million fund which would initially help with financing oil imports and then be recycled into longer term projects.

While we do not have complete and detailed information on all the financial initiatives, I think the preceding list amply indicates that oil producers are channelling a portion of their resources to the poorer countries, that at least a part of these resources is being made available on the favorable terms that the situation requires, and that we can anticipate still more constructive steps in the future.

EUROPE

After these discussions in the Mideast, I was pleased to have the opportunity to meet with a number of European leaders. In my view, a close acquaintance, and frequent and informal conversations with those responsible for economic and financial policy abroad are more than a useful tradition -- they are an essential part of our management of an increasingly complex world economy. There is no substitute for a face-to-face discussion of the current problems our nations face domestically as well as internationally. On this occasion, I particularly welcomed the chance to meet Minister Fourcade in France and Minister Colombo in Italy, since both had missed the Committee of Twenty Meeting in Washington in June because of the press of domestic matters.

This Subcommittee has expressed specific interest in the problems of re-cycling oil money, and I will offer some comments on that situation in light of my talks in Europe. But I do at the outset want to make clear that this was not the only topic of concern -- specifically, the problem of inflation was very much on the minds of the leaders with whom I spoke.

Inflation is the number one economic problem facing the world today. All of Europe is experiencing inflation rates unacceptable by past standards. And in a world grown increasingly interdependent through rapid growth of international commerce, it is increasingly recognized that we all share a common interest in the success of each other's anti-inflationary policies.

Inflation rates are too high everywhere. But they differ widely from country to country. Our record has not been good. But consumer prices have been rising even faster in Italy, in the United Kingdom and in France. And even those countries can feel some relief that they are not experiencing the extraordinarily rapid increases that Japan has been suffering.

It was the German experience which particularly drew my attention. That country has within living memory suffered most severely from uncontrolled inflation and accordingly one finds there a low tolerance for inflation and strong support for policies of restraint. The German authorities have for an extended time followed firm policies of demand management. I am convinced that these policies explain why inflation in Germany is less virulent than in other countries in a fundamentally similar situation.

Our discussions in Europe did focus on the problems of financing oil surpluses and deficits and the ability of private financial markets to handle the anticipated vast flows of funds. Let me make clear at the outset that there was general recognition that the private markets face a serious challenge. But no one was talking about impending failure of financial markets generally or of the monetary system. Nor was there worry that oil monies will be capriciously shifted from one market to another thereby disrupting the foreign exchange and financial markets. All of our experience confirms that the financial authorities of the Arab countries intend to manage their oil revenues in a conservative and responsible manner.

The problems of re-cycling oil revenues do not arise from this source. They derive rather from the very large magnitudes involved and the abrupt adjustments required to handle such magnitudes. OPEC oil revenues are presently running at an annual rate of some $100 billion. That is on the basis of present oil prices, and subject to a great many uncertainties. Some of these revenues are spent on imports and other current consumption, and the balance

is available for investments and loans and so on. There are uncertainties here, too, but again it is convenient to think in terms of perhaps some 60 percent of total OPEC oil revenues available for investment in one form or another -- roughly $60 billion at the present annual rate. By any standards, this represents a lot of money to be re-cycled.

I should caution very strongly, however, against extrapolating these figures into the future. You know already my views about oil prices. In addition, there are estimates which suggest that the OPEC countries may be able to make rapid strides toward expanding their imports and spending their oil revenues. Given these prospects, there is in my view no basis for some of the extreme projections of OPEC investments exceeding the trillion dollar level within a decade or so.

But no one should ignore the potential difficulties facing both the private financial markets and governments in dealing with the large flows expected this year. That is the matter which we discussed in Europe.

As far as the private markets were concerned, we were careful to approach this question quite apart from the difficulties of a few individual banks which have over-extended themselves in trading primarily in the forward

exchange markets. Forward trading is important to the proper functioning of the foreign exchange markets, but clearly some of these institutions simply got in over their heads.

Apart from these cases, we observed that the private financial system was doing a remarkable job of handling very large expanded operations. The financial intermediaries are, of course, adjusting their practices in the face of changed circumstances, in particular proving themselves unwilling to pay the same rates for short maturity deposits they cannot easily use as for longer-term deposits they can re-lend prudently. They are also becoming more active as brokers, arranging direct placements. And the lenders are exploring other channels for their funds, thus easing the pressures on the financial intermediaries. I refer here not only to the talks we have been having with Middle Eastern financial authorities about possible purchases of U.S. Special Securities but also about such developments as the recently announced Iranian advances to France and the U.K., and investment in the Krupp concern in Germany.

It is true, of course, that world capital markets are very large even in comparison to prospective OPEC oil monies. To take the U.S. market alone: U.S. corporate

assets are estimated at well in excess of $2 trillion, and equity and debt securities outstanding at the end of last year amounted to some $1.8 trillion. Even the relatively young "Euro Currency" market had at the end of last year, before the new oil prices had much impact on capital flows, grown to over $150 billion. Today, that market probably approaches $200 billion.

As for the role of governments in facilitating the flow of money through private markets and directly in the re-cycling process, the first responsibility of governments is to maintain those economic and financial conditions that are conducive to sound economic activity. In the present circumstances, this means firm policies to deal with inflation and the avoidance of sharp turns in policies. I can see nothing but trouble if we yield to inflation.

A second area of governmental responsibility involves the surveillance and supervision of banking practices. Cases of faulty management in the foreign exchange dealings of some banks, for example, suggest it is a time for careful attention by supervisory authorities to the practices of individual institutions. In my talks in Germany, I was interested to have an explanation of the steps being taken there to obtain better control of bank activities.

Yet another role of governments, or more commonly, of central banks, is that of assuring the smooth functioning of the financial system as a whole. The public authorities cannot be asked to provide compensation for the mistakes of management: They can properly be asked to see that the solvency problems of one institution do not snowball into severe liquidity problems for the entire system.

Beyond facilitating flows of funds through the private markets, there is also a proper role for governments directly in the re-cycling process.

Here I think first of the problems of the poorest countries most seriously affected by the oil price increases. I am encouraged by the evidence that the oil exporting countries are recognizing their responsibilities by expanding their assistance, both directly AND indirectly, to those hardest hit countries.

But there remains an urgent need to organize the necessary assistance for these countries. Progress toward that end was initiated at the June meeting of the Ministers of the Committee of 20 when it was agreed that a new development council would be established and that it would give priority attention to the problems of these most seriously affected countries.

That C-20 meeting also agreed on another important step involving governments in the re-cycling process, by establishing the special oil facility in the International Monetary Fund. That facility will provide a very useful supplement for those countries which can afford its near-market terms but which are unable to obtain adequate financing through private markets.

Governments and central banks of the main countries have, in addition, an extensive network of swap arrangements developed first in the 1960's. Although not appropriate for long-term financing of oil deficits, they can serve usefully to assist in dealing with short-term pressures in the exchange markets.

The responsibility of governments does not end with these steps. In my conversations abroad, we were very keenly aware of the need to follow closely developments in the markets and, if necessary, develop new mechanisms to channel oil funds. We will be working on contingency plans which will allow us to act quickly and positively should need arise.

The breadth and diversity of U. S. capital markets suggest that we will attract a substantial share of OPEC funds. My European colleagues expressed some concern, in fact that these flows to the U. S. would exceed levels needed to finance our increased oil bills. Although they

recognized there was no evidence that such excessive inflows to the U.S. were in fact occurring they were interested in what our reaction would be.

Our reaction to this potential problem is already a matter of record. Earlier this year we removed our capital controls and opened our markets to foreign borrowers again on the basis prevailing before imposition of restraints over a decade ago. Under these circumstances, should there be substantial investments in U.S. Government securities, this would reduce our official borrowing from domestic sources and free resources for lending abroad. We have offered OPEC nations an opportunity to place a portion of their funds in special U.S. Government securities, and there is deep interest on their part in such placements. But this is a matter of convenience, not an attempt to attract excessive investments here. No special inducements are offered -- merely the opportunity of government-to-government transactions which enable the investor to transact very large sums without influencing the market against himself. It is a facility we would offer -- and have offered -- a number of foreign nations holding very large dollar balances.

To a large extent, I returned from my meetings in the Middle East and Europe reassured that a firm basis exists for dealing with the critical problems of the day in a cooperative framework. We have put the mechanisms in place that will enhance economic development and at the same time establish closer relationships with these countries. Strengthening their economies is in the best interest of the entire world. I believe we have taken the necessary first steps in that effort and now we must work together to implement these initiatives. I am confident that we have the will and the resources to succeed in this critical task.

- oOo -

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

372

FOR IMMEDIATE RELEASE August 15, 1974

DETERMINATION OF SALES AT NOT LESS THAN FAIR VALUE ON PAPERMAKING MACHINERY FROM CANADA

Acting Assistant Secretary of the Treasury James B. Clawson announced today a determination that papermaking machinery from Canada is not being, nor is likely to be, sold at less than fair value within the meaning of 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 August 16, 1974.

A Notice of Tentative Negative Determination was published in the Federal Register of May 17, 1974.

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

* * * * *

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

373

FOR RELEASE AT 10:30 A.M.
THURSDAY, AUGUST 15, 1974

STATEMENT OF THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE
SENATE BUDGET COMMITTEE
WASHINGTON, D.C.
AUGUST 15, 1974

Mr. Chairman and Members of this Committee:

I am glad to be here this morning to participate in these first hearings of the Senate Budget Committee. I have been an enthusiastic supporter of budget reform since I first came to the Treasury, and I am pleased to see that you are moving so very promptly to implement the Budget Reform and Impoundment Control Act of 1974.

This is an important time for the Budget Committee to begin its work. In my judgment, there is nothing the Administration and the Congress, working together, can do that is more important for the economic welfare of the American people than to reduce the very rapid momentum that has built up in the growth of Federal expenditures. Such action would have many important benefits in both the short and long term.

First, it would help us meet the premier long-term challenge that we have for economic policy, which is to make sure that during the next decade our economy generates the enormous volume of savings and investment that will be necessary for Project Independence, new mass-transit systems, housing, and all the other capital requirements of our society. I believe that we will have to raise the share of national output devoted to savings and investment by a substantial margin. It is not widely recognized that our investment performance has been relatively poor. Since 1960, plant and equipment spending in the United States was only 15 percent of total output, whereas France invested 18 percent, Germany 20 percent and Japan 27 percent. And furthermore, for gross domestic investment (which includes inventories, housing and public investment), the proportions for 1973 are: United States 17 percent, France 26 percent, Germany 25 percent and Japan 37 percent.

It will not be a simple matter to raise our investment share; quite the contrary. We will have to change our many policies that encourage consumption at the expense of savings and investment. Among the most important changes that we will have to make is to maintain regular surpluses in the budget, so that the Federal Government would be adding to the supply of savings available to the private economy, instead of using up those savings -- as we have been doing in 13 of the past 14 years. If we could maintain, on average, a budget surplus equal to even one-half percent of GNP, we would add about 3 percent to the flow of savings available to the private sector. And if we are to slow the ongoing momentum of growth in Federal expenditures, we had better get on with it by making some spending cuts right now.

Second, in the near term, control of budget expenditures has an important psychological value in demonstrating to the American people that we are serious about inflation. Without some cuts in the budget, the credibility of our efforts will be suspect. I believe that bringing the budget into better balance would be the most important single step that could be taken to restore the confidence of the American people in their own and the Nation's economic future.

Third, a tighter fiscal policy will reduce the Treasury's demands for funds and will thereby reduce the heavy pressures that we now see in the financial markets. A tighter fiscal policy would mean that monetary policy will not have to bear the main burden of the stabilization effort.

On this point, I think we should remember that the Federal Government has a greater impact on the financial markets than is indicated by the deficit in the Unified Budget. For one thing, the Export-Import Bank and the Postal Service are not in the budget and, correspondingly, their credit demands do not get included in the Budget deficit.

Much more important, there is a large volume of credit that is guaranteed by Federal agencies -- to assist public and private housing, urban and rural development, shipbuilding and railroads, health, education, small business, and other functions. These all represent demands that we in the Government place on the financial markets. It is not often realized how large these demands are; in fact, in many years the net borrowings for these programs exceed the deficit in the Unified Budget, as shown in the table below. (Note that these figures do not include the borrowings of the Federally sponsored agencies: the Federal National Mortgage Association, the Home Loan Bank System, and the Farm Credit System.)

Fiscal Year	Unified Budget Deficit	Additional Federal Credit	Total
	(billions of dollars)		
1971	-23.0	-16.8	-39.8
1972	-23.2	-18.0	-41.2
1973	-14.3	-15.6	-29.9
1974	- 3.5	-16.8	-20.3
1975 (est.)	-11.4	-14.9	-26.3

If the sponsored agencies are also added in, the Federal presence in the credit markets reaches rather startling dimensions. In the fiscal year 1973, total Federal and Federally assisted borrowings accounted for 62 percent of all the funds raised through borrowings in the capital markets.

The fourth reason for curbing Federal expenditures is the most important reason, because it involves the number one problem in the country today -- inflation. Americans are experiencing their first sustained siege of intolerably rapid peacetime inflation. It is a new and most unwelcome experience. They do not understand where double-digit inflation came from and they lack confidence that their government will be able to get the situation under control.

How did we get here? I will not try to retrace all the causes of the current inflation, or try to fix the blame one place or another. Without too much risk of oversimplification, I think it is fair to say that the price explosion of 1973-74 is primarily attributable to (a) a series of severe temporary shocks that originated mostly outside the U.S. economic system and (b) almost a decade of excessively stimulative fiscal and monetary policies.

The outside shocks are, by now, familiar to all of us: the world-wide agricultural crop failures of 1972, enormous pressures on the prices of internationally traded raw materials, two devaluations of the dollar, and the Arab oil embargo. In addition, the end of the controls program is now operating as an additional temporary force to raise some prices and wages faster than otherwise would have been the case.

But all these special factors, as important as they have been, are of a temporary, one-shot nature. Had our general economic policies not been too stimulative, the outside shocks would have had only a one-time effect. Once they had worked their way through the system, the inflation would have settled down again to a tolerable rate.

But our general economic policies have, in fact, been far too stimulative for a long period of time. Let me give you two examples of how policy changed in the mid-1960s. First, on the fiscal side: from 1955 to 1965 Federal expenditures rose at roughly a 6 percent annual rate. From 1965 to 1974, however, Federal expenditures surged to a 10 percent annual rate of growth. This rapid spending growth created huge Federal deficits which, coming as they did during periods of high business activity, added enormously to economic demands. These deficits were, therefore, directly responsible for creating strong upward pressures on the price level. Second, monetary policy also broke out of a previously established pattern. From 1955 to 1965 the money supply grew at a 2 1/2 percent rate. Since then, the growth rate has more than doubled to a 6 percent annual pace. It is no accident that during the earlier period we had a rather stable price performance, but since 1965 we have had the worst peacetime inflation in our history.

What has and is happening, then, is that the excessive budget deficits and the excessive growth of money and credit in recent years prevented the "temporary" price pressures from running their course and fading away. Instead, much of the inflation from the outside shocks is or soon will be deeply embedded in our entire system. It is or soon will be embedded into the pattern of wage settlements and into the structure of interest rates. It is or soon will be embedded into the economic expectations of consumers, of workers, of investors, of businessmen -- everybody.

And because this inflation is becoming so deeply embedded, squeezing it out of the system will be a long, tough process. It is a most difficult challenge for economic policy.

Our only viable policy alternative, in my opinion, is to apply the necessary fiscal and monetary discipline persistently and consistently to keep the economy operating within the limits of its capacity to produce. The economy can be prosperous and it must continue to grow, but we must not let it continue to run away with itself. Demand will have to be held slightly below total potential output. 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.

Let me emphasize that this fight against inflation will take years. There are no shortcuts, no acceptable quick solutions. 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.

There are many who question the effectiveness of restrictive fiscal policy to counter these fundamental inflationary pressures. In my view, however, the evidence of experience is clear that fiscal restraint applied consistently and in tandem with monetary restraint can bring inflation under control.

Inflation is an exceedingly complex process and no simple chart will ever be able to give us the answer to the inflation problem. I believe, however, that the attached chart captures the essence of the budget's contribution to the control of inflation. It can be seen that the actual budget position (top panel) does not correlate closely with the rate of inflation (bottom panel). This is where the full employment budget proves itself to be a useful guide to economic policy. The full employment calculation adjusts the budget data to remove the impact of the economy on the budget, and thereby brings out the impact of the budget on the economy. When the full employment budget position (middle panel) is compared to the rate of inflation, a fairly striking pattern emerges. There is a strong general relationship between the two. In the broad sweep of things, it is clear that sustained and sizable budget surpluses are associated with below-average inflation and sustained and sizable budget deficits are associated with above-average inflation.

There are two years during the 26-year span covered by the chart in which the inflation is far higher than can be accounted for by fiscal policy. These years are 1950-51 and 1973-74, which were the two occasions when commodity inflation (food and industrial raw materials) had an extraordinarily large, one-time impact on the general price level. Aside from these two occasions, the relationship strongly supports the general notion that budget deficits are inflationary and budget surpluses are not inflationary.

It is for these four reasons, all of which I think are persuasive, that I am so strongly committed to budget discipline, not only for this year but for many years ahead. It is indeed fortunate that the Congress has placed itself in a position --

through the new budget mechanism of which this Committee is a vital part -- to deal effectively with the difficult fiscal decisions that lie ahead.

Economic Adjustments

Any well-conceived anti-inflation program must also have regard for the casualties of inflation and for those whose earnings may be interrupted for a time by a program of disinflation. Without getting into detail, let me say that I believe we can gradually reduce inflation without suffering massive unemployment. For a time, we will have to live with more unemployment than we would like, but it will not have to be a large amount. To deal with this contingency, we have proposed improvements in our system of unemployment compensation, and I again urge Congressional passage of that legislation.

Strains in the financial markets have had particularly adverse effects on housing, and in May we put forward a $10 billion program to augment the supply of mortgage funds. These financial strains together with higher prices of primary energy have -- because of the slow pace of the regulatory process -- produced dangerously low earnings for many companies in regulated industries. While these are largely state and local regulatory bodies which must act, the Administration is examining what might be done to speed up the needed changes. These illustrate the kinds of economic adjustments that must be accommodated in order to facilitate the disinflationary process.

Where to Cut

It is easy for me to come before you and say that we must cut the budget. It may be, in fact, that the explosive inflation of the past couple of years has caused a shift in public opinion to the point where it is now a very popular position to advocate slowing down the growth of Federal spending. The people are aware, in a general way at least, that it took us 185 years to get up to the $100 billion mark in Federal spending, but only nine more years to reach the $200 billion mark, and just four more years after that to get to $300 billion. A national consensus appears to be developing that we should slow this process down, and what is good economics may now also be good politics.

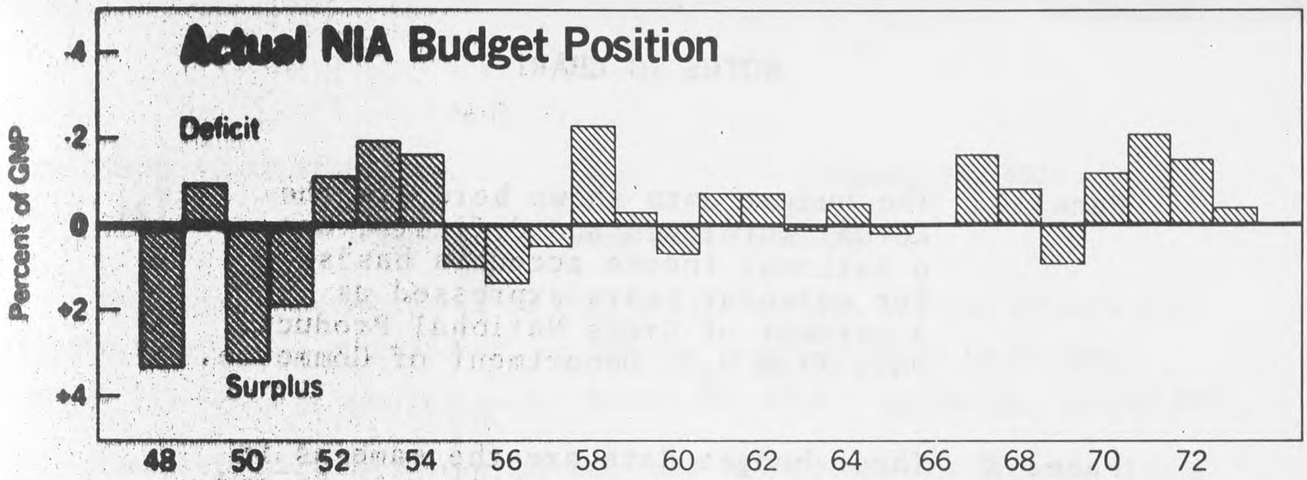
The next step, however, is the tough one: Where should the budget be cut? What specific programs are to be eliminated or at least stretched out? This is the nub of the issue, and although the general idea of cutting the budget may now be popular, that is almost certainly not true for individual programs. Specific budget cuts are never popular. Nobody wants to see their own high-priority areas cut back; that is entirely understandable.

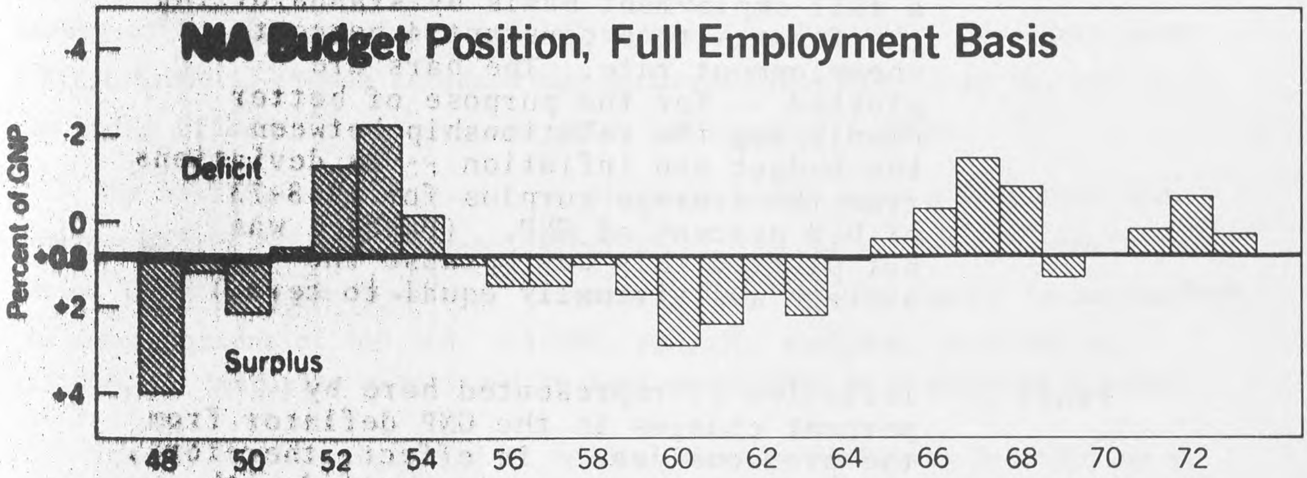
But if we are to cut the budget in total, there is no alternative but that some individual programs will have to give way. I think you will agree with me that this hearing is not the place to decide where to cut the budget. We now have a new mechanism that provides the Legislative and Executive Branches of Government with the means to cooperate closely on budget matters, and we should use this mechanism to determine our budget priorities.

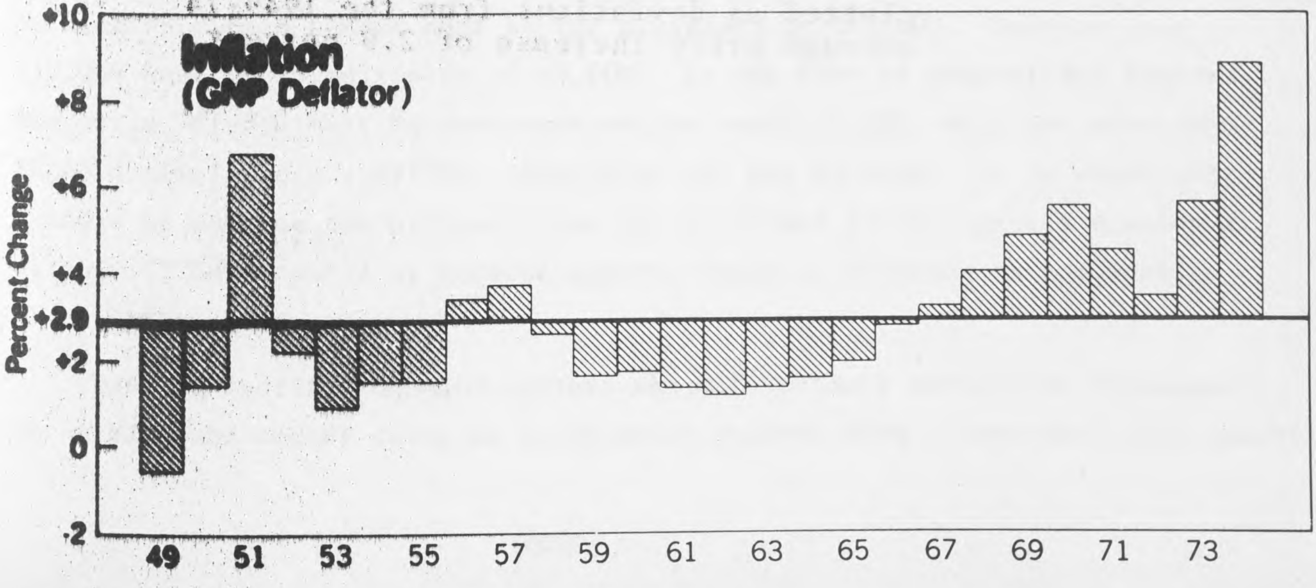
I want to stress the cooperative nature of this process. Only in this way can we strike the necessary balance between what is economically practical and what is politically practical. Only in this way can we be sure that in making cuts in specific programs we do not roll back the clock on economic and social progress in this Nation. Only in this way can we take a thoughtful, careful approach to the task of pruning the budget, rather than taking a meat-ax, across-the-board approach in which the good programs get cut along with the bad. Only in this way can we have the kind of tough give-and-take that is the hallmark of democratic government. It will not be an easy task but it is a vital one and I look forward to working on it with you, Mr. Chairman and the other Members of this Committee.

379

THE BUDGET AND INFLATION







NOTES TO CHART

Panel 1 The budget data shown here are the actual surpluses and deficits, on a national income accounts basis, for calendar years expressed as a percent of Gross National Product. Data from U.S. Department of Commerce.

Panel 2 These budget data are the same as in Panel 1 except that the surpluses and deficits have been adjusted by the Federal Reserve Bank of St. Louis to a full-employment basis by standardizing the figures to a constant 4 percent unemployment rate. The bars are plotted -- for the purpose of better displaying the relationship between the budget and inflation -- as deviations from the average surplus for 1948-73 of 0.8 percent of GNP. (Panel 1 was not plotted this way because the average was virtually equal to zero.)

Panel 3 Inflation is represented here by percent changes in the GNP deflator from the previous year. In effect, therefore, the inflation measure is charted with a 6-month lag compared to the budget data in Panels 1 and 2. The bars are plotted as deviations from the 1949-74 average price increase of 2.9 percent.

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

380

FOR IMMEDIATE RELEASE August 15, 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 August 27, 1974, and to mature August 26, 1975 (CUSIP No. 912793 WS1).

The bills will be issued for cash and in exchange for Treasury bills maturing August 27, 1974, outstanding in the amount of $ 1,804,820,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $ 721,135,000. 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 in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value) and in book-entry form to designated bidders.

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Wednesday, August 21, 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 $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on August 27, 1974, in cash or other immediately available funds or in a like face amount of Treasury bills maturing August 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 NEWS
WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

381

FOR IMMEDIATE RELEASE August 16, 1974

BIG DEMAND MAY DELAY ISSUANCE
OF SOME SECURITIES

Heavy public response to Treasury's August 15 refinancing may result in some delay in delivery of registered notes and bonds because of the additional work required for registration.

It may be as late as November 1 before some subscribers receive their securities, but the securities will be dated August 15, 1974, and earn interest from that date.

Despite the greater work that registration entails, and the initial delay in issuance, small investors who purchase Treasury notes and bonds are encouraged to request them in registered form. Registration provides protection in case of loss or theft, whereas securities held in the unregistered form do not have this protection.

H. J. Hintgen
Commissioner of Public Debt

WS-86

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

382

FOR RELEASE 6:30 P.M. August 19, 1974

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.8 billion of 13-week Treasury bills and for $2.0 billion of 26-week Treasury bills, both series to be issued on August 22, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing November 21, 1974			26-week bills maturing February 20, 1975	
	Price	Equivalent Annual Rate		Price	Equivalent Annual Rate
High	97.794 a/	8.727%		95.561 b/	8.780%
Low	97.750	8.901%		95.467	8.966%
Average	97.764	8.846% 1/		95.501	8.899% 1/

a/ Excepting 1 tender of $200,000
b/ Excepting 1 tender of $395,000

Tenders at the low price for the 13-week bills were allotted 9%.
Tenders at the low price for the 26-week bills were allotted 1%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 49,770,000	$ 39,770,000	$ 15,530,000	$ 15,530,000
New York	3,093,890,000	2,184,955,000	2,389,435,000	1,645,485,000
Philadelphia	35,695,000	35,650,000	13,400,000	13,400,000
Cleveland	59,525,000	47,145,000	48,305,000	32,785,000
Richmond	62,165,000	42,665,000	42,795,000	26,295,000
Atlanta	39,895,000	35,405,000	24,895,000	22,895,000
Chicago	233,995,000	158,500,000	224,200,000	94,300,000
St. Louis	40,015,000	31,630,000	24,550,000	21,550,000
Minneapolis	12,200,000	12,200,000	8,305,000	8,305,000
Kansas City	46,730,000	45,035,000	23,220,000	22,920,000
Dallas	32,895,000	21,460,000	29,880,000	18,880,000
San Francisco	222,300,000	145,755,000	139,755,000	77,755,000
TOTALS	$3,929,075,000	$2,800,170,000 c/	$2,984,270,000	$2,000,100,000 d/

c/Includes $475,595,000 noncompetitive tenders accepted at average price.
d/Includes $247,870,000 noncompetitive tenders accepted at average price.
1/ These rates are on a bank-discount basis. The equivalent coupon-issue yields are 9.17% for the 13-week bills, and 9.45% for the 26-week bills.

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

283

FOR IMMEDIATE RELEASE August 20, 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 $4,800,000,000, or thereabouts, to be issued August 29, 1974, as follows:

92-day bills (to maturity date) in the amount of $2,800,000,000, or thereabouts, representing an additional amount of bills dated May 30, 1974, and to mature November 29, 1974 (CUSIP No. 912793 VA1), originally issued in the amount of $1,902,570,000, the additional and original bills to be freely interchangeable.

182-day bills for $2,000,000,000, or thereabouts, to be dated August 29, 1974, and to mature February 27,1975 (CUSIP No. 912793 VX1).

The bills will be issued for cash and in exchange for Treasury bills maturing August 29, 1974 , outstanding in the amount of $4,406,125,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,540,175,000. 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 in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value) and in book-entry form to designated bidders.

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Monday, August 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

(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 August 29, 1974, in cash or other immediately available funds or in a like face amount of Treasury bills maturing August 29, 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.

federal financing bank NEWS
WASHINGTON, D.C. 20220
Press inquiries: 202-964-2615

204

FOR IMMEDIATE RELEASE August 20, 1974

Jack F. Bennett, President of the Federal Financing Bank, today signed a $1.5 billion loan commitment agreement with the Rural Electrification Administration, Department of Agriculture. Under the agreement, loans will be made to rural electrification and telephone systems for periods up to 34 years. REA will guarantee the loans and act as agent for the Federal Financing Bank. The rate of interest on each advance will be determined by the Federal Financing Bank at the time of the advance.

oOo

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

2-85

FOR RELEASE 3:30 P.M. August 20, 1974

$2 BILLION OFFERING OF TREASURY BILLS

The Treasury will raise $2 billion to meet early September cash needs by issuing Treasury bills maturing June 30, 1975.

The June 1975 maturity fits into the Treasury's 2-year cycle of issues with maturities on the last day of March, June, September, and December. This issue completes the cycle.

The auction for the bills will be on Wednesday, August 28, with payment on Wednesday, September 4. Payment may not be made by credit to tax and loan accounts.

Details of the offering are contained in a separate press release.

Jack F. Bennett
Under Secretary for Monetary Affairs

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

FOR IMMEDIATE RELEASE August 20, 1974

TREASURY'S 299-DAY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for $2,000,000,000, or thereabouts, of 299-day Treasury bills, to be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided. The bills of this series will be dated September 4, 1974, and will mature June 30, 1975 (CUSIP No. 912793 WY 8) when the face amount will be payable without interest. They will be issued in bearer form in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value) and in book-entry form to designated bidders.

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, August 28, 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.

All bidders are required to agree not to purchase or to sell, or to make any agreements with respect to the purchase or sale or other disposition of any bills of this issue at a specific rate or price, until after one-thirty p.m., Eastern Daylight Saving time, Wednesday, August 28, 1974.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive

(OVER)

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 September 4, 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.

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

MEMORANDUM FOR CORRESPONDENTS 287 August 20, 1974

Attached for your information are notices to be published in the Federal Register extending for two weeks the time period for comment on countervailing proceeding notices involving bottled green olives and non-rubber footwear from Spain.

2?? APP-4-05-O:D:T DW

DEPARTMENT OF THE TREASURY
UNITED STATES CUSTOMS SERVICE

BOTTLED GREEN OLIVES FROM SPAIN

AMENDMENT OF NOTICE OF COUNTERVAILING DUTY PROCEEDINGS

On July 16, 1974, a "Notice of Countervailing Duty Proceedings" was published in the Federal Register (39 F.R. 26046), with respect to bottled green olives from Spain.

The notice of July 16, 1974, is hereby amended by extending the time period to August 30, 1974, within which written views or arguments with respect to the existence or nonexistence and the net amount of a bounty or grant must be received by the Commissioner of Customs.

Vernon D. Acree
Commissioner of Customs
Vernon D. Acree

Approved: AUG 19 1974

David R. Macdonald
David R. Macdonald
Assistant Secretary of the Treasury

APP-4-05-O:D:T DW

DEPARTMENT OF THE TREASURY
UNITED STATES CUSTOMS SERVICE

NON-RUBBER FOOTWEAR FROM SPAIN

AMENDMENT OF NOTICE OF COUNTERVAILING DUTY PROCEEDINGS

On July 16, 1974, a "Notice of Countervailing Duty Proceedings" was published in the Federal Register (39 F.R. 26046), with respect to footwear from Spain. In the Federal Register of August 14, 1974 (39 F.R. 29205), an "Amendment of Notice of Countervailing Duty Proceedings" was published to more specifically define the merchandise under consideration as "non-rubber footwear" from Spain.

The notice of July 16, 1974, is hereby amended by extending the time period to August 30, 1974, within which written views or arguments with respect to the existence or nonexistence and the net amount of a bounty or grant must be received by the Commissioner of Customs.

Vernon D. Acree
Commissioner of Customs
Vernon D. Acree

Approved: AUG 19 1974

David R. Macdonald
David R. Macdonald
Assistant Secretary of the Treasury

Department of the TREASURY NEWS
HE COMPTROLLER OF THE CURRENCY
ADMINISTRATOR OF NATIONAL BANKS WASH., D.C. 20220 W04-2186

289

For Release
August 21, 1974

Appointment of Dr. David H. Jones as special assistant to the Comptroller of the Currency for strategic policy planning was announced today by Comptroller James E. Smith. Dr. Jones will assume the newly established position September 1.

Since 1973, Dr. Jones has been acting director of economic and financial research for the American Bankers Association. Prior to that time, he was an economist with the Federal Reserve Bank of Dallas. Still earlier, he had been a research assistant at the University of Texas at Austin. It was from this institution that he received his BA degree in 1968, his MA in 1969, and his Ph. D. in 1972. Dr. Jones is a native of Haskell, Texas, where he was born July 4, 1937.

In his new position, Mr. Smith said, Dr. Jones will establish and direct a new national office unit having special responsibility for tracking and evaluating new and significant financial functions in the larger national banks. Dr. Jones will be a principal policy advisor to the Comptroller.

###

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

290

FOR RELEASE 6:30 P.M. August 21, 1974

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for $1.8 billion of 52-week Treasury bills to be dated August 27, 1974, and to mature August 26, 1975, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS: (Excepting 1 tender of $50,000)

High	- 90.566	Equivalent annual rate	9.330%
Low	- 90.162	Equivalent annual rate	9.730%
Average	- 90.330	Equivalent annual rate	9.564% 1/

Tenders at the low price were allotted 29%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted
Boston	$ 16,910,000	$ 6,910,000
New York	2,176,980,000	1,271,140,000
Philadelphia	27,285,000	12,285,000
Cleveland	59,610,000	51,610,000
Richmond	19,550,000	10,800,000
Atlanta	13,330,000	13,330,000
Chicago	408,105,000	262,050,000
St. Louis	36,395,000	21,395,000
Minneapolis	1,475,000	1,475,000
Kansas City	15,855,000	14,855,000
Dallas	27,100,000	26,100,000
San Francisco	129,055,000	108,055,000
TOTALS	$2,931,650,000	$1,800,005,000 2/

1/ This is on a bank-discount basis. The equivalent coupon-issue yield is 10.46%.

2/ Includes $ 97,720,000 noncompetitive tenders accepted at the average price.

291

PHANTOM PROFITS AND INVESTMENT

by

H. I. Liebling

and

J. Jaakson

OFFICE OF THE SECRETARY OF THE TREASURY
OFFICE OF FINANCIAL ANALYSIS

Review of
ECONOMIC AND FINANCIAL DEVELOPMENTS
August 2, 1974

292

PHANTOM PROFITS AND INVESTMENT

Due to inflation, the adequacy of corporate earnings to finance working and fixed capital has diminished significantly over the past decade. By 1973, that adequacy had diminished precipitously, and worsened further in early 1974.

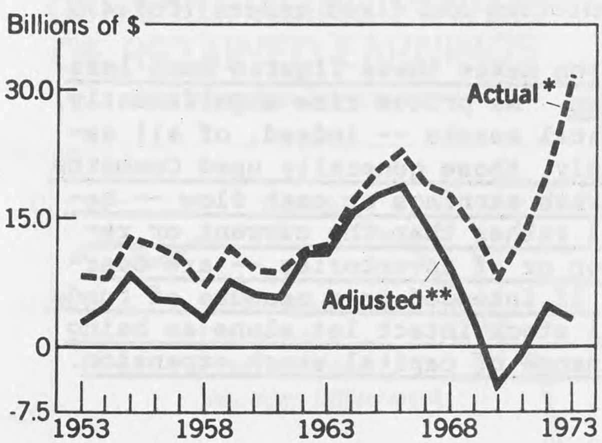
This growing inadequacy has become a major factor contributing to a shortfall in capital spending; to major shortages in materials and in finished goods-producing industries, thereby adding to the current accelerated inflation rate; and to the heavy current pressures in capital markets.

Since 1965, it has been the inflation that has caused a large discrepancy between the historic and replacement costs of physical assets by business, which lies at the root of the problem of profits adequacy. The discrepancy caused by inflation has resulted in a serious overstatement of corporate profits in recent years.

Chart I:

RETAINED EARNINGS: ACTUAL AND ADJUSTED FOR REPLACEMENT COST

(Non-Financial Corporations)



* Actual retained earnings, National Income Accounts.

** Adjusted retained earnings = actual retained earnings minus undervaluation of depreciation plus IVA.

In 1973, profits after taxes for nonfinancial corporations were estimated at $55 billion, which appears relatively large. However, if replacement costs for inventory and depreciation were charged, profits after taxes would be reduced to $26.5 billion. And, if dividends are then deducted as necessary payment to obtain capital from investors, retained earnings can be shown to have been only $2.8 billion. This represents a deep plunge from the 1965 level of $18.4 billion, as shown by the chart on this page; these data are also shown in the following, for selected years (while the complete historical record since 1953 is shown in Table 1, attached):

Non-financial Corporate Earnings (Bil. dol.)

	1955	1965	1973
Profits after tax, reported	22.2	38.2	55.0
Profits after tax, adjusted*	18.0	35.3	26.5
Retained earnings*	8.6	18.4	2.8

*** Adjusted for replacement costs of physical assets**

Superficially, many national accounts measures of earnings appear to have ballooned since 1965. This contrasts with "adjusted" earnings shown below (and the declining share of them to corporate GNP, not shown):

Non-financial Corporate Earnings (Bil. dol.)

	After Tax Profits	**Gross Cash Flow***	**Net Cash Flow** "Historical"**	**Net Cash Flow** "Replacement"**
1955	22.2	39.3	29.9	25.7
1965	38.2	73.6	56.7	53.8
1968	38.3	83.7	62.8	54.6
1973	55.0	123.1	99.4	70.9

*** After tax profits plus "historical" depreciation.**
****** Retained earnings plus "historical" depreciation (Col.3) or "replacement" cost of inventories and fixed assets (Col.4).

But, the pace of inflation makes these figures much less meaningful than they have been. As prices rise significantly, the replacement cost of physical assets -- indeed, of all assets -- increases. Accordingly, those generally used Commerce Department measures of corporate earnings or cash flow -- because they reflect historical rather than the current or replacement cost of depreciation or of inventories -- are overstated. They are deficient, if intended as a measure of funds available to keep the capital stock intact, let alone as being a guide for the available finance of capital stock expansion.

293

As the inflation accelerated in the U.S., the greater has been the overstatement of corporate earnings because of the substantial understatement of the cost of replacing physical assets. The increasing magnitude of this negative factor on profits is shown in the chart on this page. (Note negative scale.)

Entering into the steep decline in "adjusted" retained earnings are corrections for the overstatement of corporate earnings made by:

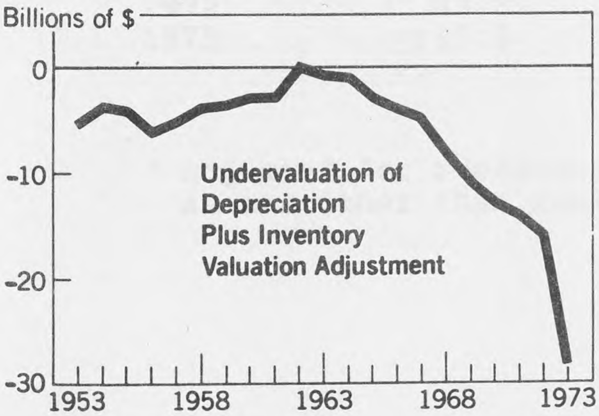
- The inventory valuation adjustment (IVA) in the national accounts, which attempts to correct corporate profits for changes in the replacement or current cost of inventory. This is required because most U.S. companies are on a "first-in first-out" or historical cost basis.

- Repricing of depreciation charges at replacement value. (However, statistical problems are involved in this measurement. Should the replacement cost be applied on a "straight-line," "double-declining balance," or some other type of depreciation method? Also, what service life might be assigned to physical assets -- Bulletin F, or what some have claimed as "more realistic" shorter lives?)

Chart II:

THE LOSS OF PURCHASING POWER OF RETAINED EARNINGS

(Non-Financial Corporations)



Alternative methods of depreciation have been calculated by the Department of Commerce. However, many authorities, including George Terborgh, are agreed that 85% of Bulletin F lives, as depreciated by the "double-declining balance" method, might be a good and realistic approximation of actual depreciation. This _Review_ uses that procedure.

The decline in "adjusted" retained earnings noted above -- steep as it has been -- appears more grim when it is recognized that the adjustments noted above apply only to the replacement value of physical assets, not to funds that might finance expansion of capital. For that expansion, the 1973 level of retained earnings is surely very small as a source of finance. Moreover, the overstatement of earnings became even more dramatic during the first part of 1974, as the inflation accelerated. Some rough estimates indicate the overstatement of retained earnings grew from $28.5 billion. in 1973 to perhaps twice that rate in the first half of 1974.

But, the capital stock of the U.S. surely needs to grow. The internal sources of corporate funds clearly are insufficient to provide for expansion in the "net" capital stock.

All of this would indicate that corporations will need to rely very heavily on external means of financing -- in other words, having recourse to the capital markets for means of financing of capital expansion programs. Those markets already have been under pressure. Indeed, some expansion plans have recently been deferred because of high interest rates. In view of this Nation's present pattern of savings and consumption, there is little indication that such pressure will ease soon -- even under conditions of lower-than-expected economic growth in 1974 (assuming little change in overall capital spending plans).

Table 1

PROFITS AND RETAINED EARNINGS OF

NON-FINANCIAL CORPORATIONS

(Billions of Dollars)

	PROFITS AFTER TAXES	ADJUSTED PROFITS AFTER TAXES*	ADJUSTED RETAINED EARNINGS*
1953	16.4	10.9	2.9
1954	16.3	12.6	4.4
1955	22.2	18.0	8.6
1956	22.1	16.0	5.8
1957	20.9	15.6	5.2
1958	17.5	13.5	3.3
1959	22.5	18.8	7.9
1960	20.6	17.7	6.1
1961	20.5	17.5	5.9
1962	23.9	23.8	11.0
1963	26.2	25.3	11.0
1964	31.4	30.3	15.4
1965	38.2	35.3	18.4
1966	41.2	37.1	18.9
1967	37.8	33.0	14.2
1968	38.3	30.1	9.3
1969	34.3	23.4	2.7
1970	28.2	15.5	-4.5
1971	33.4	19.5	-0.7
1972	43.0	27.5	5.3
1973	55.0	26.5	2.8

* Adjusted for replacement costs of physical assets other than residential properties.

2.94

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

299

FOR IMMEDIATE RELEASE August 23, 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 $4,800,000,000, or thereabouts, to be issued September 5, 1974, as follows:

91-day bills (to maturity date) in the amount of $2,800,000,000, or thereabouts, representing an additional amount of bills dated June 6, 1974, and to mature December 5, 1974 (CUSIP No. 912793 VB9), originally issued in the amount of $1,903,910,000, the additional and original bills to be freely interchangeable.

182-day bills for $2,000,000,000, or thereabouts, to be dated September 5, 1974, and to mature March 6, 1975 (CUSIP No. 912793 VY9).

The bills will be issued for cash and in exchange for Treasury bills maturing September 5, 1974, outstanding in the amount of $4,407,040,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,461,890,000. 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 in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value) and in book-entry form to designated bidders.

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Friday, August 30, 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 September 5, 1974, in cash or other immediately available funds or in a like face amount of Treasury bills maturing September 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.

Removal Notice

The item identified below has been removed in accordance with FRASER's policy on handling sensitive information in digitization projects due to

Citation Information

Document Type:

Number of Pages Removed:

Author(s):

Title:

Date:

Journal:

Volume:

Page(s):

URL:

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

313

FOR RELEASE 6:30 P.M. August 26, 1974

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.8 billion of 13-week Treasury bills and for $2.0 billion of 26-week Treasury bills, both series to be issued on August 29, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing November 29, 1974		26-week bills maturing February 27, 1975	
	Price	Equivalent Annual Rate	Price	Equivalent Annual Rate
High	97.506 a/	9.759%	95.025 b/	9.841%
Low	97.434	10.041%	94.951	9.987%
Average	97.468	9.908% 1/	94.980	9.930% 1/

a/ Excepting 5 tenders totaling $380,000
b/ Excepting 2 tenders totaling $1,520,000

Tenders at the low price for the 13-week bills were allotted 92%.
Tenders at the low price for the 26-week bills were allotted 19%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 50,045,000	$ 40,045,000	$ 35,610,000	$ 23,610,000
New York	2,901,135,000	2,212,730,000	2,668,860,000	1,668,795,000
Philadelphia	59,180,000	48,380,000	16,675,000	16,675,000
Cleveland	78,680,000	68,680,000	95,820,000	73,805,000
Richmond	67,855,000	62,355,000	54,975,000	33,625,000
Atlanta	37,700,000	36,950,000	25,795,000	24,185,000
Chicago	291,475,000	135,235,000	374,095,000	39,345,000
St. Louis	42,910,000	38,910,000	32,495,000	22,495,000
Minneapolis	8,375,000	8,375,000	8,710,000	6,710,000
Kansas City	32,720,000	32,720,000	33,825,000	26,625,000
Dallas	31,205,000	23,205,000	25,960,000	15,960,000
San Francisco	116,480,000	92,680,000	105,215,000	48,215,000
TOTALS	$3,717,760,000	$2,800,265,000 c/	$3,478,035,000	$2,000,045,000 d/

c/ Includes $482,665,000 noncompetitive tenders accepted at average price.
d/ Includes $304,700,000 noncompetitive tenders accepted at average price.
1/ These rates are on a bank-discount basis. The equivalent coupon-issue yields are 10.31% for the 13-week bills, and 10.60% for the 26-week bills.

ederal financing bank NEWS
WASHINGTON, D.C. 20220
Press inquiries: 202-964-2615

314

FOR IMMEDIATE RELEASE August 26, 1974

SUMMARY OF LENDING ACTIVITY

Federal Financing Bank loans now exceed $2 billion under more than $3.5 billion in commitments to purchase obligations from Federal and federally-assisted borrowers. The Bank began operations last May.

The Bank was established by an Act of Congress last December (Public Law 93-224), to consolidate the financing of various Federal agencies and other borrowers whose obligations are guaranteed by the Federal Government.

Borrowing from the Bank by federal agencies represents a more efficient and less costly method of financing agency program activity that would otherwise have been financed in the market by each of the agencies. This borrowing therefore does not represent new demands for funds on our capital markets.

Latest of the Bank transactions was a commitment, signed August 20 by Jack F. Bennett, President, for $1.5 billion with the Agriculture Department's Rural Electrification Administration. Loans under this commitment, guaranteed by REA, will be made subsequently to rural electrification and telephone systems at rates determined at the time of the advance.

Other financing activity of the Bank is as follows:

-- As of August 23, 1974, the Bank purchased from the Department of Health, Education, and Welfare $18 million of notes issued by public agencies under the HEW Medical Facilities Direct Loan Program (Hill Burton) under a total commitment of $27.6 million to this program at an interest rate of 8-5/8 percent. The loan is guaranteed by HEW.

-- The Bank made two 91-day loans to the Student Loan Marketing Association ("Sallie Mae") totalling $200 million; $100 million on June 4, 1974, carrying an interest rate of 8.98 percent; and another $100 million on August 1, 1974, at 8.30 percent. The loans are guaranteed by HEW.

(MORE)

-- On June 27, 1974, the Bank made a one-year, $500 million loan to the Postal Service at an interest rate of 9.31 percent. The loan matures on June 30, 1975.

-- The Bank purchased $500 million of five-year Certificates of Beneficial Ownership (CBO) from the Farmers Home Administration on July 2, 1974, at an interest rate of 9.20 percent on an annual basis, and $500 million five-year certificates on August 7 at 9.33 percent on an annual basis.

-- As of August 26, 1974, Amtrak, the National Railroad Passenger Corporation, borrowed $171,500,000 of a total commitment of $200 million made by the Bank July 9, 1974. Funds are advanced to Amtrak at various times at their discretion and at interest rates set at the time of each drawdown. Amtrak's borrowings are guaranteed by the Department of Transportation.

-- The Bank purchased $45 million of guaranteed Participation Certificates from the General Services Administration on July 22, 1974, at an interest rate of 8.88 percent. The certificates mature July 15, 2004.

-- The Bank made a 91-day $100 million loan to the Tennessee Valley Authority on July 25 at an interest rate of 7.99 percent. The loan matures October 24, 1974.

-- On August 9, the Bank purchased $1.5 million of Small Business Investment Corporation ten-year debentures at a 9.10 percent interest rate guaranteed by the Small Business Administration.

oOo

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

315

FOR RELEASE 6:30 P.M. August 28, 1974

RESULTS OF TREASURY'S 299-DAY BILL AUCTION

Tenders for $2.0 billion of 299-day Treasury bills to be dated September 4, 1974, and to mature June 30, 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	- 91.944	Equivalent annual rate 9.700%	
Low	- 91.839	Equivalent annual rate 9.826%	
Average	- 91.888	Equivalent annual rate 9.767%	1/

Tenders at the low price were allotted 65%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	
Boston	$ 37,660,000	$ 14,800,000	
New York	3,582,260,000	1,728,525,000	
Philadelphia	39,115,000	6,315,000	
Cleveland	169,975,000	63,875,000	
Richmond	57,345,000	12,145,000	
Atlanta	17,165,000	9,865,000	
Chicago	557,880,000	109,520,000	
St. Louis	40,575,000	5,375,000	
Minneapolis	17,025,000	2,025,000	
Kansas City	34,210,000	13,910,000	
Dallas	24,430,000	7,430,000	
San Francisco	354,080,000	26,780,000	
TOTALS	$4,931,720,000	$2,000,565,000	2/

1/ This is on a bank-discount basis. The equivalent coupon-issue yield is 10.56%.

2/ Includes $147,825,000 noncompetitive tenders accepted at the average price.

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

316

FOR IMMEDIATE RELEASE August 30, 1974

JOE E. GONZALES
APPOINTED TO TREASURY POST

Joe E. Gonzales, 53, a former senior professional staff member of the Senate Appropriations Committee, has been named Special Assistant to the Assistant Secretary of Treasury for Enforcement, Operations, and Tariff Affairs with special responsibilities along the border with Mexico.

In Tuscon, Arizona, Mr. Gonzales will represent the Assistant Secretary, David R. Macdonald, in coordinating Treasury matters, including activities of the Customs Service and the Bureau of Alcohol, Tobacco and Firearms, with other Federal agencies, state and local officials, and with U. S. and Mexican consular officials. He is fluent in Spanish.

Before joining the Treasury Department, Mr. Gonzales spent 19 years with the Senate Appropriations Committee. He has served as counsel and advisor to the U. S. Senate Delegation to the U. S. - Mexico Interparliamentary Conferences on eight occasions. Before his Senate assignment, Mr. Gonzales was employed in Mexico for five years by the U. S. Department of Labor.

Mr. Gonzales was born in Cochise County, Arizona, and was graduated from the University of Arizona. He is married to the former Opal Johnson of Alabama. A son, Thomas, age 20, attends Amherst College, Massachusetts.

000

WS-87

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

3/7

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

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.8 billion of 13-week Treasury bills and for $2.0 billion of 26-week Treasury bills, both series to be issued on September 5, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing December 5, 1974		26-week bills maturing March 6, 1975	
	Price	Equivalent Annual Rate	Price	Equivalent Annual Rate
High	97.725 a/	9.000%	95.337 b/	9.224%
Low	97.661	9.253%	95.288	9.320%
Average	97.683	9.167% 1/	95.307	9.283% 1/

a/ Excepting 3 tenders totaling $3,075,000
b/ Excepting 3 tenders totaling $1,640,000

Tenders at the low price for the 13-week bills were allotted 34%.
Tenders at the low price for the 26-week bills were allotted 3%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 52,435,000	$ 41,995,000	$ 39,725,000	$ 21,175,000
New York	2,887,990,000	2,104,120,000	3,038,555,000	1,565,285,000
Philadelphia	34,225,000	34,225,000	31,395,000	15,950,000
Cleveland	84,835,000	84,835,000	93,745,000	58,695,000
Richmond	101,060,000	59,560,000	44,780,000	28,755,000
Atlanta	42,760,000	42,595,000	41,670,000	31,140,000
Chicago	223,565,000	143,965,000	238,130,000	80,980,000
St. Louis	47,765,000	44,945,000	45,930,000	33,930,000
Minneapolis	20,350,000	20,350,000	18,890,000	15,890,000
Kansas City	52,350,000	52,350,000	43,240,000	36,245,000
Dallas	37,025,000	31,025,000	29,205,000	18,605,000
San Francisco	156,195,000	140,235,000	187,810,000	93,810,000
TOTALS	$3,740,555,000	$2,800,200,000c/	$3,853,075,000	$2,000,460,000d/

c/ Includes $516,810,000 noncompetitive tenders accepted at average price.
d/ Includes $345,440,000 noncompetitive tenders accepted at average price.
1/ These rates are on a bank-discount basis. The equivalent coupon-issue yields are 9.51% for the 13-week bills, and 9.88% for the 26-week bills.